

**BEFORE THE  
TENNESSEE REGULATORY AUTHORITY**

In the Matter of the Application of

**KMC Telecom V, Inc.**

for a Certificate of Public Convenience  
and Necessity as a Competing  
Telecommunications Service Provider  
to Provide Competitive Resold and  
Facilities-Based Local Exchange and  
Resold Interexchange Telecommunications  
Services Throughout the State of Tennessee

Docket No. \_\_\_\_\_

00-01123

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**APPLICATION OF KMC TELECOM V, INC. FOR A CERTIFICATE OF PUBLIC  
CONVENIENCE AND NECESSITY**

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Pursuant to TENN. CODE ANN. § 65-4-201, Chapter 1220-4-8-.02 of the Tennessee Regulatory Authority's ("TRA's") regulations for local telecommunications service providers, and the Federal Telecommunications Act of 1996 ("Federal Act" or "Act"), 47 U.S.C. § 251 *et seq.*, KMC Telecom V, Inc. ("KMC V" or "Applicant" or the "Company"), by its attorneys, hereby respectfully requests that the TRA grant it the authority to provide competitive resold and facilities-based local exchange and resold interexchange telecommunications services throughout the State of Tennessee.

Consistent with the objectives of the Federal Act, the Tennessee Regulatory Authority ("TRA") has adopted a policy favoring competition in all telecommunications markets. The TRA has recognized that it is in the public interest to develop effective competition to ensure that all consumers, residential and business, have access to high quality, low-cost, and innovative telecommunications services, regardless of the chosen service provider. In support of its application, KMC V provides the following information:

Exhibits  
H I + Jon Fik  
in docket office

**I. DESCRIPTION OF THE APPLICANT AND ITS CORPORATE AUTHORITY**

**A. CORPORATE INFORMATION**

1. Applicant's legal name is KMC TELECOM V, INC. Applicant maintains its principal place of business at:

1545 Route 206, Suite 300  
New Jersey 07921-2567  
Bedminster, New Jersey 07921-2567  
(908) 470-2100 (Tel.)  
(908) 719-8775 (Fax)

2. The Applicant is a privately held Delaware corporation and a direct, wholly-owned subsidiary of KMC TELECOM HOLDINGS, INC. ("KMC Holdings"), also a Delaware corporation. A copy of KMC V's Certificate of Incorporation is attached hereto as **Exhibit A**. An exhibit showing KMC V's corporate structure is appended hereto as **Exhibit B**. KMC V has applied with the Tennessee Secretary of State for a Certificate of Authority to do Business. It is respectfully requested that the TRA docket the instant Application as filed pending submission of evidence of KMC V's Certificate of Authority to be submitted as part of **Exhibit C** of this Application upon Applicant's receipt, *nunc pro tunc*. The name and address of KMC V's registered agent in Tennessee for service of process will be:

C T Corporation System  
530 Gay Street  
Knoxville, Tennessee 37902

**B. OFFICERS AND DIRECTORS**

3. The following is a list of KMC V's officers:

<b>Roscoe C. Young II</b>	<b>President and Chief Operating Officer</b>
<b>William H. Stewart</b>	<b>Chief Financial Officer and Executive Vice President</b>
<b>Patricia Breckenridge</b>	<b>Executive Vice President – Business Development</b>
<b>Larry Salter</b>	<b>Executive Vice President – Network Operations</b>

<b>James L. Barwick</b>	<b>Senior Vice President – Technology and Chief Engineer</b>
<b>Charles Rosenblum</b>	<b>Senior Vice President – Human Resources</b>
<b>Robert Hagan</b>	<b>Vice President, Controller and Assistant Secretary</b>
<b>Alan Epstein</b>	<b>Vice President, General Counsel and Secretary</b>
<b>Marcy Dean</b>	<b>Vice President, Treasurer and Assistant Secretary</b>
<b>Joseph P. Sheehan, III</b>	<b>Vice President</b>
<b>Steven Kreider</b>	<b>Vice President and Assistant Treasurer</b>
<b>Jeannette Barretta</b>	<b>Assistant Secretary</b>

The full business experience of these officers is set forth in detail in **Exhibit D**, which also contains the biographies of the key management and operational personnel who will be responsible for KMC V's telecommunications services in Tennessee and throughout the United States.

The following is a list of KMC V's directors:

**Harold N. Kamine, Chairman**

**Roscoe C. Young, II**

**William H. Stewart**

All of the above-referenced officers and directors may be reached at the following address:

1545 Route 206  
Suite 300  
Bedminster, New Jersey 07921  
Telephone (908) 470-2100

4. The profiles of KMC V's directors are appended hereto as part of **Exhibit D**.

5. While KMC V does not maintain corporate offices in Tennessee at this time, KMC

V may open offices in Tennessee in the future.

**C. REGULATORY CONTACT INFORMATION**

6. All correspondence, notices, orders and inquiries regarding the processing of this Application should be addressed to:

H. LaDon Baltimore  
Farrar & Bates, L.L.P.  
211 7<sup>th</sup> Avenue, North, Suite 420  
Nashville, TN 37219  
Telephone: (615) 254-3060  
Facsimile: (615) 254-9835

7. Copies of all correspondence, notices, orders and inquiries also should be sent to:

Tricia Breckenridge  
Executive Vice-President, Business Development  
KMC TELECOM, INC.  
1755 N. Brown Road  
Lawrenceville, Georgia 30043  
Telephone: (678) 985-7900  
Facsimile: (678) 985-6213

8. All correspondence, notices and inquiries regarding all (1) consumer, (2) technical and service quality, and (3) tariff and pricing issues should be sent to:

Michael Duke  
Director – Regulatory Affairs  
KMC TELECOM, INC.  
1755 N. Brown Road  
Lawrenceville, Georgia 30043  
Telephone: (678) 985-7900  
Facsimile: (678) 985-6213

**D. KMC AFFILIATES**

9. As a wholly-owned subsidiary of KMC Holdings, KMC V is affiliated with the following existing telecommunications operating subsidiaries of KMC Holdings -- KMC Telecom Inc. ("KMC"), KMC Telecom II, Inc. ("KMC II"), KMC Telecom III, Inc. ("KMC III"), KMC Telecom IV, Inc. ("KMC IV"), KMC Telecom of Virginia, Inc. ("KMC VA"), KMC Telecom IV of Virginia, Inc. ("KMC IV VA"), and KMC Telecom V of Virginia, Inc. ("KMC V VA") (the "Affiliates"). As of the date of the filing of this Application, KMC Holdings' affiliates are authorized by virtue of certification, registration, or (where appropriate) on an unregulated basis

to provide local exchange and/or interexchange telecommunications services as reflected in the chart appended hereto as **Exhibit E**.

## **II. MANAGERIAL, TECHNICAL AND FINANCIAL QUALIFICATIONS**

10. KMC V is well-qualified managerially, technically, and financially to provide the resold and facilities-based competitive local exchange and resold interexchange telecommunications services for which authority is requested in this Application. The Company's management team includes individuals with substantive experience in successfully developing and operating telecommunications businesses. KMC V has access to significant capital and substantial technical and managerial expertise.

11. In support of this Application, KMC V submits the following information to demonstrate that it has sufficient managerial and technological telecommunications experience and expertise, as well as the financial stability adequate to ensure its continued provision of quality local exchange and interexchange telecommunications services within Tennessee.

### **A. MANAGERIAL ABILITY**

12. KMC V has adequate internal managerial resources to support its Tennessee operations. This expertise in the telecommunications industry makes KMC V's management team well-qualified to construct, operate, and manage KMC V's local exchange and interexchange networks in Tennessee. Specific details of the business and technical experience of KMC V's officers and management personnel are appended hereto as **Exhibit D**, which also contains the biographies and brief descriptions of the business experience of key management and operational personnel who will be responsible for KMC V's telecommunications services in Tennessee and throughout the United States.

### **B. TECHNICAL QUALIFICATIONS**

13. KMC V is technically qualified to provide its proposed services in Tennessee. As is evident from the information contained in **Exhibit D**, KMC V is managed by persons with substantial technical expertise in designing, constructing, and operating telecommunications

networks. This wealth of experience will enable KMC V to provide its local exchange customers with advanced, state-of-the-art technology for its data services as described in Section III of this Application.

C. FINANCIAL QUALIFICATIONS

14. KMC V is financially qualified to provide telecommunications services in Tennessee. KMC V, through the strength of its parent corporation, KMC Holdings, has access to ample capital to compete effectively in the market and provide telecommunication services in Tennessee. Both a description of KMC Holdings' financial qualifications and a copy of KMC Holdings' most recent SEC Form 10-Q are attached hereto as **Exhibit F**. In addition, KMC V has attached hereto as **Exhibit G** a Guaranty issued by KMC Holdings guaranteeing KMC V's financial obligations attendant to KMC V's operations as a telecommunications carrier in Tennessee. As KMC V was formed as a Delaware corporation on March 15, 2000, it does not yet have audited financial statements. KMC V is a privately-held company and, thus, does not issue annual reports or submit any financial filings with the Securities and Exchange Commission.

15. However, as is evident from the information above and KMC V's unaudited Balance Sheet, which is being filed with this Application *under seal* as **Exhibit H**, KMC V has the necessary financial resources to provide the telecommunications services described in this Statement, and to finance its operations in order to ensure the continued provision of these services in Tennessee. Also appended to this Application and filed *under seal* as **Exhibit I** are the Applicant's *projected* financial statements (including Balance Sheet, Statement of Operations, and Cash Flow Statement) for the next three (3) years. None of these financial statements reflect any amounts related to reciprocal compensation for the termination of internet service provider ("ISP") traffic.

16. As demonstrated in the Cash Flow statement of KMC Holdings appended hereto as part of SEC Form 10-Q in **Exhibit F**, KMC V has access to ample working capital, provided through privately-placed venture capital investment, to fund the construction and operation of

KMC V's telecommunications network in Tennessee, and to meet any lease and ownership obligations associated with its provision of local exchange and interexchange telecommunications services in Tennessee. This capital will enable KMC V to meet the projected operating expenditures for its Tennessee operations over the next three years set forth in the capital budget, which is being filed with this Application *under seal* as **Exhibit J**. As demonstrated by these Exhibits, KMC V has adequate access to the financial resources necessary to enable it to meet its working capital requirements in Tennessee for the next several years.

17. Please note that the information provided in **Exhibits H, I & J** is privileged and confidential and is being submitted *under seal* solely for the purpose of the TRA's *in camera* review.

### **III. PROPOSED SERVICES TO BE OFFERED BY APPLICANT IN TENNESSEE**

18. By this Application, KMC V seeks the authority to provide high-speed data transport services to business subscribers to and from all points in the State of Tennessee as a provider of competitive resold and facilities-based local exchange and resold interexchange data services.

19. Initially, KMC V intends to deliver port wholesale data services. Over time, KMC V plans to offer other enhanced data services such as ISDN, HDSL, Internet access, Local Area Network-to-Local Area Network interconnect, Wide Area Network services, frame relay and ATM (or asynchronous transfer mode). Port wholesaling gives KMC V the ability to provide data switching to Internet service providers by allowing data calls to be terminated through the port wholesale equipment rather than the switch. This enables the Internet service provider to more cost effectively manage its data requirements while, at the same time, increasing the efficiency and capacity of the KMC V Lucent Technologies Series 5ESS(R)-type switch

20. KMC V's local exchange network in Tennessee will consist of deploying NEBS (Network Equipment Building Standards)<sup>1</sup> compliant Remote Access Server (RAS) equipment in existing (non-ILEC) collocation space such as carrier hotels for interconnection to ILECs and IXC providers. RAS equipment will interconnect with ILEC networks using Inter Machine Trunks (IMT's). At present, the Company has no switches or other facilities installed within the State of Tennessee. KMC V has no plans to construct outside plant facility or loop distribution equipment at the current time.

**IV. LOCAL EXCHANGE SERVICE AND INTEREXCHANGE SERVICE TARIFFS**

21. Applicant will file tariffs subsequent to approval and before commencement of operations in the State of Tennessee.

**V. REPAIR AND MAINTENANCE/CUSTOMER SERVICE INFORMATION**

22. KMC V will bill its customers directly, using industry-accepted methods of billing and collection. Attached hereto as **Exhibit K** is a copy of a sample customer bill.

23. KMC V will maintain the following toll-free customer service telephone number: 1-888-KMC-THE1.

24. Applicant will not publish a separate white pages directory but will contract with the underlying ILEC to provide listings for its customers.

25. KMC V currently has no plans for the construction of any facilities.

26. KMC V's customer service representatives are available to assist its business customers with service, maintenance and billing issues. Specifically, KMC V's customer services representatives are prepared to respond to a broad range of service matters, including inquiries regarding: (1) the types of services offered by KMC V and the rates associated with such services; (2) monthly billing statements; (3) problems or concerns pertaining to a customer's current service; and (4) general telecommunications matters. For service issues, customers may contact

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<sup>1</sup> NEBS defines a rigid and extensive set of performance, quality, environmental and safety requirements developed by Bellcore (now called Telcordia Technologies).



KMC V's customer services department between the hours of 8 a.m. and 8 p.m., Monday through Friday, by calling them toll-free at (888) KMC-THE1. Customers wishing to communicate with a KMC V customer service representative in writing can write to KMC V at:

1545 Route 206, Suite 300  
New Jersey 07921-2567  
Bedminster, New Jersey 07921-2567

Those persons specifically in charge of KMC V's Tennessee operations are still to be determined; however, in the interim, all questions regarding the Company's Tennessee operations may be addressed to:

Michael Duke  
Director – Regulatory Affairs  
KMC TELECOM, INC.  
1755 N. Brown Road  
Lawrenceville, Georgia 30043  
Telephone: (678) 985-7900  
Facsimile: (678) 985-6213

**VI. SMALL AND MINORITY-OWNED BUSINESS PARTICIPATION PLAN**

27. Applicant has attached hereto a copy of its Small and Minority Owned Telecommunications Business Participation Plan as **Exhibit L**.

**VII. NUMBERING ISSUES**

28. The questions concerning numbering issues are not currently applicable to KMC V as KMC V will initially offer only data port wholesale services, not voice grade services.

**VIII. TENNESSEE SPECIFIC OPERATIONAL ISSUES**

29. The questions concerning Tennessee Specific Operational Issues are not currently applicable to KMC V as KMC V will initially offer only data port wholesale services, not voice grade services.

**IX. MISCELLANEOUS**

30. In accordance with Section VIII of the TRA's *Check List for Competing Telecommunications Service Provider Applicants*, KMC V provides the following information:

- (a) Notarized, pre-filed testimony of Michael Duke, Director—Regulatory Affairs, is attached as **Exhibit M**.
- (b) As discussed above, Applicant will file tariffs subsequent to approval and before commencement of operations in Tennessee.
- (c) The Applicant has attached hereto a chart containing information regarding the status of its applications in all other states as **Exhibit E**.
- (d) The Applicant has not been involved in any pertinent mergers or acquisitions. The Applicant has only one operating subsidiary, KMC Telecom V of Virginia, Inc., which has been granted authorization to provide resold and facilities-based local exchange services in the State of Virginia. The Applicant's affiliates are illustrated in **Exhibit B**.
- (e) The Applicant will not require customer deposits.
- (f) To the best of KMC V's knowledge, there are no complaints or investigations of unauthorized switching or any other illegal activity made against KMC V or any of its affiliates in any jurisdiction.
- (g) KMC V will not offer telecommunications services in areas served by any incumbent local exchange telephone company with fewer than 100,000 total access lines, except for those that have voluntarily entered into an agreement with a competing telecommunications service provider or that have applied to provide telecommunications services in an area outside its service area existing as of June 6, 1995, or unless otherwise permitted by applicable state or federal law. KMC V also will not provide service in any area served by a telephone cooperative unless otherwise permitted by applicable state or federal law. KMC V reserves the right to expand its service into these areas should subsequent rulings of the TRA or any court or administrative agency allow the provision of service into such areas.

**X. STATEMENT OF COMPLIANCE**

31. KMC V has (1) received, read, and understands the TRA's Interexchange Reseller Rules and Regulations; (2) understands the penalties for non-compliance, and all associated fees to provide such service; and (3) will comply with and abide by all applicable statutes and orders, rules and regulations entered and adopted by the TRA, including those specified in Chapter 1220-4-8-.02 of the TRA's regulations for local telecommunications service providers and TCA §65-4-2011, as well as any that the TRA may promulgate in the future. KMC V agrees to comply with the TRA's rules regarding universal service, interconnection, equal access and basic service standards.

32. The applicant has attached hereto as **Exhibit N** a surety bond in the amount of Twenty Thousand Dollars (\$20,000.00) as required by TENN. CODE ANN. § 65-4-125.

33. To prevent unauthorized "slamming" of customers, Applicant follows all relevant rules of the Federal Communications Commission, the Tennessee Regulatory Authority, and section 228 of the Communications Act of 1934 as amended by the Telecommunications Act of 1996.

**XI. REQUESTS FOR WAIVER**

34. Initially, KMC V does not plan to provide voice-grade dial tone service to end users in Tennessee. Accordingly, Applicant seeks a waiver, to the extent such a waiver is required for the services Applicant proposes to provide, from the following requirements set forth in Rule 1220-4-8-.04(3)(b): access to 911 and E911 emergency services; directory listings and directory assistance; Tennessee Relay Center access and support; blocking service for 900 and 976-type services; Lifeline and Link-up Services; and educational discount requirements. If KMC V decides to provide voice-grade dial tone service in Tennessee at some time in the future, it will file a toll dialing parity plan for Authority consideration at least 60 days prior to offering voice grade dial tone service, consistent with FCC Docket 96-98 and will comply with the requirements of Rule 1220-4-8-.04(3)(b).

## **XII. CERTIFICATE OF SERVICE**

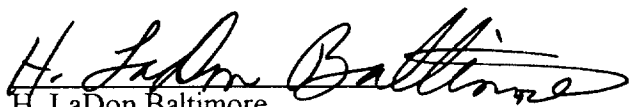
35. Applicant has served notice of the Application upon ILECs certificated in Tennessee, and the Certificate of Service is attached hereto.

## **XIII. CONCLUSION**

36. The telecommunications industry is growing and changing at an impressive pace. The entry of KMC V into the local exchange and interexchange markets will enhance competition in the provision of telecommunications services within the State of Tennessee as prescribed by the Tennessee legislature in Chapter 408 of the Public Acts of 1995 and by the Federal Telecommunications Act of 1996. KMC V will bring significant benefits to telecommunications users in the State of Tennessee. Applicant's expertise in the telecommunications sector will permit it to select the most economic and efficient services, thereby providing subscribers with a better combination of price, quality, and subscriber service than other carriers. Accordingly, Applicant anticipates its proposed service will provide subscribers with better quality services and will increase consumer choice of innovative, diversified, and reliable service offerings.

WHEREFORE, KMC Telecom V, Inc. requests that the Tennessee Regulatory Authority approve its application for a Certificate of Public Convenience and Necessity to provide facilities-based and resold local exchange and resold interexchange telecommunications services throughout the entire State of Tennessee.

Respectfully submitted,

By:   
H. LaDon Baltimore  
Farrar & Bates, L.L.P.  
211 7<sup>th</sup> Avenue, North, Suite 420  
Nashville, TN 37219  
Telephone: (615) 254-3060  
Facsimile: (615) 254-9835

Its Attorney

Dated: December 19, 2000

### CERTIFICATE OF SERVICE

The undersigned, H. LaDon Baltimore, hereby certifies that on the 19th day of December, 2000, a true and correct copy of the foregoing Application and exhibits (excepting those exhibits filed under seal with the TRA) has been forwarded via U. S. Mail, first-class postage prepaid, to:

ARDMORE TELEPHONE COMPANY INC.  
P.O. Box 549  
517 Ardmore Avenue  
Ardmore, TN 38449

BELLSOUTH  
333 Commerce Street  
Nashville, TN 37201-3300

CENTURY TELEPHONE OF ADAMSVILLE  
P.O. Box 405  
116 N. Oak Street  
Adamsville, TN 38310

CENTURY TELEPHONE OF CLAIBORNE  
P.O. Box 100  
507 Main Street  
New Tazewell, TN 37825

CENTURY TELEPHONE OF OOLTEWAH-COLLEGEDALE, INC.  
P.O. Box 782  
5616 Main Street  
Ooltewah, TN 37363

CITIZENS COMMUNICATIONS COMPANY OF TENNESSEE  
P.O. Box 770  
300 Bland Street  
Bluefield, WV 24701

CITIZENS COMMUNICATION COMPANY OF THE VOLUNTEER STATE  
P.O. Box 770  
300 Bland Street  
Bluefield, WV 24701

LORETTO TELEPHONE COMPANY, INC.  
P.O. Box 130  
Loretto, TN 38469

MILLINGTON TELEPHONE COMPANY, INC.  
P.O. Box 429  
4880 Navy Road  
Millington, TN 38083-0429

SPRINT-UNITED  
112 Sixth Street  
Bristol, TN 37620

TDS TELECOM-CONCORD TELEPHONE EXCHANGE, INC.  
P.O. Box 22610  
701 Concord Road  
Knoxville TN 37933-0610

TDS TELECOM-HUMPHREYSCOUNTY TELEPHONE COMPANY  
P.O. Box 552  
203 Long Street  
New Johnsonville, TN 37134-0552

TDS TELECOM-TELLICO TELEPHONE COMPANY, INC.  
P.O. Box 9  
102 Spence Street  
Tellico Plains, TN 373 85-0009

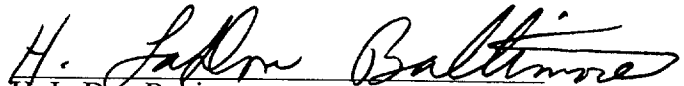
TDS TELECOM-TENNESSEE TELEPHONE COMPANY  
P.O. Box 18139  
Knoxville, TN 37928-2139

TEC-CROCKETT TELEPHONE COMPANY, INC  
P.O. Box 7  
Friendship, TN 38034

TEC-PEOPLE'S TELEPHONE COMPANY INC.  
P.O. Box 310  
Erin, TN 37061

TEC-WEST TENNESSEE TELEPHONE COMPANY, INC.  
P.O. Box 10  
244 E. Main Street  
Bradford, TN 38316

UNITED TELEPHONE COMPANY  
P.O. Box 38  
120 Taylor Street  
Chapel Hill, TN 37034

  
H. LaDon Baltimore

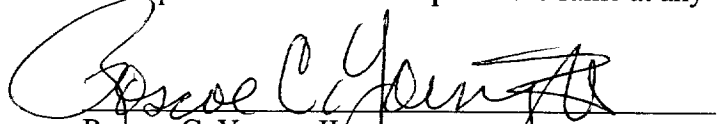
VERIFICATION

Roscoe C. Young, II, Affiant, being duly sworn according to law, deposes and says that:

He is the President and Chief Operating Officer of KMC Telecom V, Inc.

That he is authorized to and does make this affidavit for said corporation;

That the facts set forth in this Application are true and correct to the best of his knowledge, information, and belief and that he expects said corporation to be able to prove the same at any hearing hereof.

  
\_\_\_\_\_  
Roscoe C. Young, II,  
President and Chief Operating Officer  
KMC Telecom V, Inc.

[Commonwealth/State] of New Jersey :

:      **ss.**

County of Somerset :

Sworn and subscribed before me this 4th day of December 2000

  
\_\_\_\_\_  
Signature of official administering oath

**JEANNETTE BARRETTA**  
A Notary Public of New Jersey  
My Commission Expires March 18, 2002

My commission expires

## **LIST OF EXHIBITS**

<b>Exhibit A</b>	Certificate of Incorporation
<b>Exhibit B</b>	Corporate Structure
<b>Exhibit C</b>	Certificate of Authority to Transact Business in Tennessee
<b>Exhibit D</b>	Managerial Qualifications
<b>Exhibit E</b>	Certification of KMC Affiliates to Provide Telecommunications Services
<b>Exhibit F</b>	Financial Statements
<b>Exhibit G</b>	Guaranty
<b>Exhibit H</b>	Unaudited Balance Sheet (filed Under Seal)
<b>Exhibit I</b>	Projected Financial Statements for Next Three Years (filed Under Seal)
<b>Exhibit J</b>	Estimated Cost of KMC V's Facilities to be Deployed in Tennessee (filed Under Seal)
<b>Exhibit K</b>	Sample Customer Bill
<b>Exhibit L</b>	Small and Minority Owned Telecommunications Business Participation Plan
<b>Exhibit M</b>	Pre-Filed Testimony
<b>Exhibit N</b>	Surety Bond



# **EXHIBIT A**

## **CERTIFICATE OF INCORPORATION**

- **SEE ATTACHED.**

State of Delaware  
Office of the Secretary of State

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PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT "KMC TELECOM V, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE NOT HAVING BEEN CANCELLED OR DISSOLVED SO FAR AS THE RECORDS OF THIS OFFICE SHOW AND IS DULY AUTHORIZED TO TRANSACT BUSINESS.

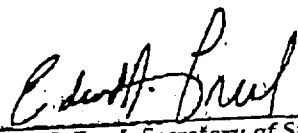
THE FOLLOWING DOCUMENTS HAVE BEEN FILED:

CERTIFICATE OF INCORPORATION, FILED THE FIFTEENTH DAY OF MARCH, A.D. 2000, AT 4:30 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE NOT BEEN ASSESSED TO DATE.



  
Edward J. Freel, Secretary of State

AUTHENTICATION:

0399315

DATE:

04-25-00

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State of Delaware

PAGE 1

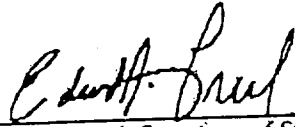
*Office of the Secretary of State*

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "KMC TELECOM V, INC.", FILED IN THIS OFFICE ON THE FIFTEENTH DAY OF MARCH, A.D. 2000, AT 4:30 O'CLOCK P.M.



3194507 8100

001208769

  
Edward J. Freel, Secretary of State

AUTHENTICATION: 0399314

DATE: 04-25-00

## CERTIFICATE OF INCORPORATION

OF

KMC Telecom V, Inc.

FIRST: The name of the corporation is KMC Telecom V, Inc. (the "Corporation").

SECOND: The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose for which the Corporation is formed is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law.

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is One Hundred (100) shares of Common Stock, par value \$.01 per share.

FIFTH: The name and mailing address of the sole incorporator of the Corporation are as follows:

Tae Hee Kim  
Kelley Drye & Warren LLP  
101 Park Avenue  
New York, New York 10178

SIXTH: The following provisions are inserted for purposes of the management of the business and conduct of the affairs of the Corporation and for creating, defining, limiting and regulating the powers of the Corporation and its directors and stockholders:

(a) The number of directors of the Corporation shall be fixed and may be altered from time to time in the manner provided in the Bylaws, and vacancies in the Board of Directors and newly created directorships resulting from any increase in the authorized number of directors may be filled, and directors may be removed, as provided in the Bylaws.

(b) The election of directors may be conducted in any manner approved by the stockholders at the time when the election is held and need not be by ballot.

(c) All corporate powers and authority of the Corporation (except as at the time otherwise provided by law, by this Certificate of Incorporation or by the Bylaws) shall be vested in and exercised by the Board of Directors.

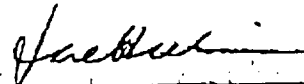
(d) The Board of Directors shall have the power without the assent or vote of the stockholders to adopt, amend, alter or repeal the Bylaws of the Corporation, except to the extent that the Bylaws or this Certificate of Incorporation otherwise provide.

SEVENTH: The Corporation reserves the right to amend or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by the laws of the State of Delaware, and all rights herein conferred upon stockholders or directors are granted subject to this reservation.

EIGHTH: No director shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided, however, that the foregoing shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

NINTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes of the State of Delaware) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors of the Corporation in accordance with the Bylaws of the Corporation.

IN WITNESS WHEREOF, I do execute this Certificate and affirm and acknowledge, under penalties of perjury, that this Certificate is my act and deed and that the facts stated herein are true, this 15<sup>th</sup> day of March, 2000.



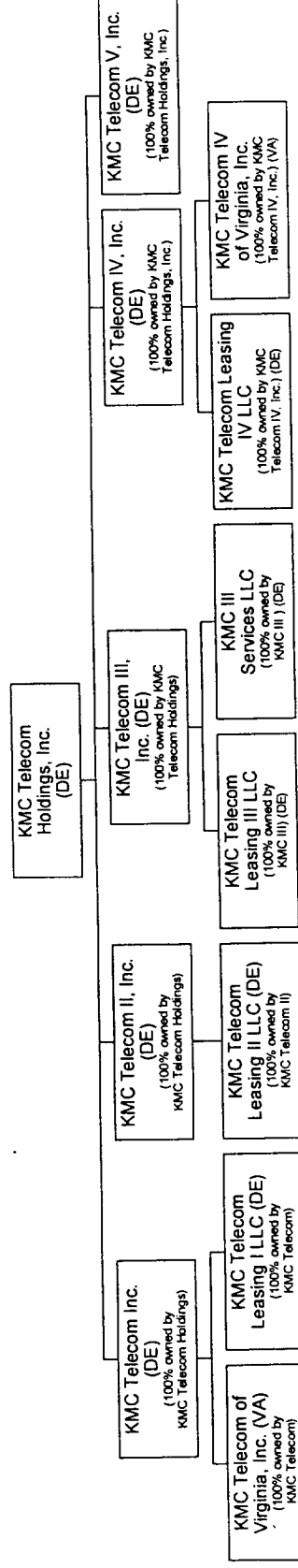
Tae Hee Kim, Sole Incorporator

## **EXHIBIT B**

### **CORPORATE STRUCTURE OF KMC V**

- **SEE ATTACHED.**

# KMC'S CORPORATE STRUCTURE



# **EXHIBIT C**

## **CERTIFICATE OF AUTHORITY TO TRANSACT BUSINESS IN TENNESSEE**

- **CERTIFICATE HAS BEEN APPLIED FOR AND WILL BE FORWARDED WHEN RECEIVED.**



# EXHIBIT D

## MANAGERIAL QUALIFICATIONS

KMC Telecom V, Inc. (“KMC V”), a Delaware corporation, is a wholly-owned subsidiary of KMC Telecom Holdings, Inc. (“KMC Holdings”), also a Delaware corporation. KMC V is technically qualified to operate as a provider of facilities-based local exchange services and resold local exchange telecommunications services in the State of Tennessee. Specifically, KMC V will rely upon the expertise of KMC Holdings’ management team who oversees the operations of KMC V and its affiliates: KMC Telecom Inc. (“KMC”), KMC Telecom II, Inc. (“KMC II”), KMC Telecom III, Inc. (“KMC III”), KMC Telecom IV, Inc. (“KMC IV”), KMC Telecom of Virginia, Inc. (“KMC VA”), KMC Telecom IV of Virginia, Inc. (“KMC IV VA”) and KMC Telecom V of Virginia, Inc. (“KMC V VA”).

The following is a list of KMC Holdings’ management team:

<b>Roscoe C. Young, II</b>	<b>President and Chief Operating Officer</b>
<b>William H. Stewart</b>	<b>Chief Financial Officer and Executive Vice President</b>
<b>Patricia Breckenridge</b>	<b>Executive Vice President – Business Development</b>
<b>Larry Salter</b>	<b>Executive Vice President – Network Operations</b>
<b>James L. Barwick</b>	<b>Senior Vice President – Technology and Chief Engineer</b>
<b>Charles Rosenblum</b>	<b>Senior Vice President – Human Resources</b>
<b>Robert Hagan</b>	<b>Senior Vice President and Assistant Secretary</b>

<b>Alan Epstein</b>	<b>Vice President, General Counsel and Secretary</b>
<b>Marcy Dean</b>	<b>Vice President, Treasurer and Assistant Secretary</b>
<b>Joseph P. Sheehan, III</b>	<b>Vice President and Controller</b>
<b>Steven Kreider</b>	<b>Vice President and Assistant Treasurer</b>
<b>Jeannette Barretta</b>	<b>Assistant Secretary</b>

Collectively, the members of KMC Holdings' management team have designed, managed, and/or operated advanced telecommunications facilities throughout the United States. The members of KMC Holdings' management team bring many years of experience and a wealth of knowledge from being associated with a number of a highly successful companies in the telecommunications industry.

Roscoe C. Young, II, KMC Holdings' President and Chief Operating Officer, prior to joining the Company, was Vice President of Network Services for Ameritech, where he led more than 4,000 employees in providing services ranging from ISDN and digital Centrex to dial tone. He previously directed engineering, network services, national account sales, marketing and real estate procurement for MFS Communications as Senior Vice President of that company. He has also been a senior executive with AT&T where he was responsible for sales, marketing, operations, engineering, financial management and human resources. During that time, he was selected by the Reagan Administration to serve as a Special Assistant to Secretary of Defense Caspar Weinberger under the White House Executive Exchange Program. Mr. Young received a B.A. in Psychology from Winona State University in 1974 and an M.S. in Rehabilitation Administration from Southern Illinois University in 1977.

William H. Stewart, KMC Holdings' Chief Financial Officer and Executive Vice President, was previously employed with Nassau Capital. Mr. Stewart joined Nassau Capital in 1995 and has over eleven in the telecommunications investment industry. While at Nassau Capital, Mr. Stewart led Nassau's investment program in the communications industry, which included investments in Cypress Communications, Crown Castle and Portal Software. Mr. Stewart has served as a Director of KMC Holdings since 1996. He graduated cum laude with a B.S. degree from Villanova University, earned an M.B.A. from New York University, and is a Chartered Financial Analyst.

James L. Barwick, KMC Holdings' Senior Vice President of Technology and Chief Engineer, has 39 years of experience in the telecommunications industry. Mr. Barwick joined the Company in March 1997. Prior to joining the Company, Mr. Barwick had been self-employed since 1986 as a telecommunications consultant with expertise in equipment Petition engineering, radio path engineering, analog and digital Mux, switching and transport systems in the long distance carrier and incumbent local exchange carrier areas, technical writing, project management and computer assisted design systems.

Charles Rosenblum, KMC Holdings' Senior Vice President of Human Resources, has over 20 years experience in human resources, primarily in human resources planning, staffing and development. He joined the Company in January 1997. From May 1995 to January 1997 he served as Vice President of Human Resources of Kamine Development Corp. Previously he had held the positions of Director, Management Development with KPMG Peat Marwick and Manager of Management Education with Dun & Bradstreet Corporation. Earlier he had served in various human resource positions with Allstate Insurance Company. Mr. Rosenblum earned a

B.S. in Business Administration from the University of Maryland and an M.A. in Human Resources from George Washington University.

Patricia Breckenridge, KMC Holdings' Executive Vice President of Business Development, joined the Company in April 1995. From January 1993 to April 1995 she was Vice President and General Manager of FiberNet USA's Huntsville, Alabama operations. Previously she had served as Vice President, External Affairs and later Vice President, Sales and Marketing of Diginet, Inc. She was co-founder of Chicago Fiber Optic Corporation, the predecessor of Metropolitan Fiber Systems. Earlier she was Director of Regulatory Affairs for Telesphere Corporation.

Larry Salter, KMC Holdings' Executive Vice President of Network Operations, is responsible for technical evaluation of new equipment, engineering, and network design of KMC Holdings' local networks. He also oversees the company's construction of new fiber optic-based SONET systems, and provides technical support to KMC Holdings' networks. Mr. Salter came to KMC Holdings' after a 26-year career with AT&T where he was involved in the development and management of Internet services, local area networks, secure systems, and a broad range of technical and engineering functions. He also was a Director of AT&T's strategy and business development and new business integration initiatives. Mr. Salter is a graduate of Iowa State University and holds an MBA in finance and marketing from the University of Chicago.

Joseph P. Sheehan, III, joined KMC Holdings in June, 1998 as Manager of Financial Systems & Special Projects. He was promoted to Director of Financial Systems & Processes in May, 1999 and has recently been appointed to the position of Vice President & Controller effective March, 2000. Mr. Sheehan began his career in telecommunications with AT&T where

he held various positions in the Billing Operations and Controller's organizations from 1991 through 1998 and he managed the results of their Data Services and Government Markets groups in their Business Markets Unit. Prior to moving to AT&T Communications, Joseph spent two years with AT&T Capital where he worked in the Finance group of AT&T Credit managing the lease portfolio. Joseph holds a BS in accounting with an information systems minor from the University of Scranton as well as his MBA from the University of Phoenix and began his career with Coopers & Lybrand.

Jeannette Barretta, KMC Holdings' Assistant Secretary, joined KMC in 1997 as its Contract Administrator and was promoted to Assistant Secretary during 1997 and Contract Manager during 1998. Prior to joining KMC, Ms. Barretta worked as a paralegal for KCS Energy Marketing, Inc. Ms. Barretta earned an A.S. in Paralegal Studies from St. John's University and began her career as a personal injury paralegal with the law firm of Ravich, Koster, Tobin Oleckna and Greenstein.

With such vast technical experience by the members of its management team, in addition to the outstanding team of engineers and network specialists it has employed, KMC Holdings has the adequate technical experience and managerial capability to develop and maintain a successful local exchange operation in the State of Tennessee.

## **DIRECTOR PROFILES**

### **HAROLD N. KAMINE, CHAIRMAN**

As the founder of the KMC family of companies, Harold N. Kamine has over six years of telecommunications experience. In addition to his telecommunications management experience, Mr. Kamine has almost twenty years of power generation management experience.

Harold N. Kamine is Chairman of Kamine International Power Corp. and Chief Executive Officer and owner of Kamine Development Corp. In the United States, ten Kamine-related companies are involved in the independent power industry. Mr. Kamine's companies own and operate six unregulated non-utility power generation projects located in the northeast United States. Other Kamine affiliates are pursuing development of independent power projects in Romania and Latin America. Mr. Kamine has arranged the financing of U.S. power facilities valued at US \$375 million. Mr. Kamine's entry into the power generation industry was spurred by changing federal regulations in the early 1980's that encouraged cost efficient independent power producers to challenge regulated operators. His entry to the telecommunications industry has been spurred by similar deregulatory legislation.

Mr. Kamine graduated *summa cum laude* from Lafayette University with a Bachelor of Science Degree Mechanical Engineering. He is a Registered Professional Engineer in the State of New Jersey.

**ROSCOE C. YOUNG II, DIRECTOR**

Named chief operating officer in 1997, Roscoe C. Young II brings more than 20 years of telecommunications industry experience to his direction of KMC's new markets, and day-to-day operations, including management of KMC Telecom IV Inc.'s fiber optic telecommunications services in the cities in which it operates, overseeing development of new markets, and technical and engineering support. Mr. Young most recently was elected to the KMC Board of Directors

Prior to joining KMC Telecom, he was Vice President of Network Services for Ameritech, where he led more than 4,000 employees in providing services ranging from ISDN and digital Centrex to dial tone. He previously directed engineering, network services, national

account sales, marketing and real estate procurement for MFS Communications as Senior Vice President of that company. He has also been a senior executive with AT&T where he was responsible for sales, marketing, operations, engineering, financial management and human resources. During that time, he was selected by the Reagan Administration to serve as a Special Assistant to Secretary of Defense Caspar Weinberger under the White House Executive Exchange Program.

**WILLIAM H. STEWART, DIRECTOR**

William Stewart joined KMC in March of 2000 as Chief Financial Officer and Executive Vice President. Mr. Stewart was most recently Managing Director of Nassau Capital, KMC's largest shareholder. Mr. Stewart joined Nassau Capital in 1995 and has more than 11 years of experience in the telecommunications investment industry. While at Nassau Capital, Mr. Stewart led Nassau's investment program in the communications industry, which included investments in Cypress Communications, Crown Castle and Portal Software. Mr. Stewart has served as a Director of KMC since 1996. He graduated *cum laude* with a B.S. degree from Villanova University, earned an M.B.A. from New York University, and is a Chartered Financial Analyst.

# EXHIBIT E

## AUTHORIZATION OF KMC HOLDINGS' AFFILIATES TO PROVIDE TELECOMMUNICATIONS SERVICE

<u>KMC Entity</u>	<u>Authority Granted</u>	<u>Authority Pending</u>
KMC Telecom, Inc.	Alabama, Florida, Georgia, Louisiana, North Carolina, Texas, Wisconsin	N/A
KMC Telecom II, Inc.	Florida, Illinois, Indiana, Kansas, Michigan, Minnesota, Nevada, New Hampshire, North Carolina, Texas	N/A
KMC Telecom III, Inc.	Alabama, Arkansas, Florida, Indiana, Iowa, Louisiana, Maryland, Michigan, Mississippi, Missouri, New Jersey, North Carolina, Ohio, South Carolina, Tennessee, Texas, West Virginia	N/A
KMC Telecom IV, Inc.	Alabama, Kansas, Kentucky, Mississippi, Nebraska, Oklahoma, Texas	Georgia, Nevada
KMC Telecom V, Inc.	Alabama, Arkansas, California, Delaware, Florida, Illinois, Indiana, Iowa, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire (IXC), New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, Texas, Washington, D.C., West Virginia, Wisconsin	Arizona, Connecticut, Georgia, Idaho, Maine, Maryland, New Hampshire (CLEC), Ohio
KMC Telecom of Virginia, Inc.	Virginia	N/A
KMC Telecom IV of Virginia, Inc.	Virginia	N/A
KMC Telecom V of Virginia, Inc.	Virginia	N/A



# EXHIBIT F

## FINANCIAL QUALIFICATIONS OF KMC TELECOM V, INC. AND KMC HOLDINGS, INC. SEC FORM 10-Q

KMC V has access to the financing and capital necessary to conduct its telecommunications operations as specified in its application. During an initial transition period, KMC V may rely in part upon the sizeable financial assets of its parent company, KMC Telecom Holdings, Inc., ("KMC Holdings"). In support of its application, KMC V submits the following financial information of KMC Holdings to demonstrate that it has sufficient access to capital and financial stability adequate to ensure its continued provision of quality local exchange and interexchange telecommunications services within the State of Tennessee. As KMC V's revenues increase through the acquisition of customers, KMC V's revenues will supplant KMC Holdings' financial assistance.

KMC Holdings has financed its capital expenditures with equity invested by its founders, preferred stock placements, credit facility borrowings, notes, and Senior Discount Notes.

On May 24, 1999, KMC Holdings issued original notes in a private offering. Approximately \$104.1 million of the proceeds of the offering were used to purchase a portfolio of U.S. government securities which have been pledged to secure the payment of the first six interest payments on these notes. KMC Holdings will use the net proceeds of the offering to complete the 14 additional networks which it plans to construct by the end of the first half of 2000.

In February 1999, KMC Holdings issued PIK Preferred Stock and warrants to purchase common stock for aggregate gross proceeds of \$65.0 million to two purchasers. In April 1999, KMC Holdings issued additional shares of PIK Preferred Stock and warrants to purchase common stock to one additional purchaser for aggregate gross proceeds of \$35.0 million. In February 1999, its subsidiary which will own the 14 additional networks which KMC Holdings currently plans to construct by the end of the first half of 2000, entered into a secured vendor financing facility with Lucent Technologies Inc. Under this Lucent Facility, the subsidiary will be permitted to borrow, subject to certain conditions, up to an aggregate of \$600.0 million, primarily for the purchase from Lucent of switches and other telecommunications equipment. As of September 30, 1999, the Company had no borrowings outstanding under the facility.

In December 1998, KMC Holdings refinanced and expanded its \$70.0 million senior secured credit facility with Newcourt Commercial Finance Corporation to a new \$250.0 million facility. Under the refinanced and expanded facility, which is with a group of lenders led by Newcourt Commercial Finance Corporation, First Union National Bank, General Electric Capital Corporation and Canadian Imperial Bank of Commerce, KMC Holdings' subsidiaries which own its initial 23 networks are permitted to borrow up to an aggregate of \$250.0 million, subject to certain conditions, for the purchase of fiber optic cable, switches and other telecommunications

equipment and, once certain financial conditions are met, for working capital and other general corporate purposes.

Net cash provided by financing activities from borrowings and equity issuances was \$219.4 million for 1998 and \$332.1 million for the nine months ended September 30, 1999. KMC Holdings' net cash used in operating and investing activities was \$213.8 million for 1998 and \$332.0 million for the nine months ended September 30, 1999.

KMC Holdings made capital expenditures of \$9.1 million in 1996, \$61.1 million in 1997, \$161.8 million in 1998 and \$218.5 million in the nine months ended September 30, 1999. KMC Holdings currently plans to continue significant capital expenditures. The majority of these expenditures is expected to be made for network construction and the purchase of switches and related equipment to facilitate the offering of its services.

At September 30, 1999, KMC Holdings had outstanding commitments aggregating approximately \$92.8 million related to the purchase of fiber optic cable and telecommunications equipment as well as engineering services, principally under its agreements with Lucent Technologies.

KMC Holdings has received a signed commitment from Lucent to refinance the existing Lucent Facility upon terms which would involve the provision of additional funding to the Company and the resetting of the financial covenants for periods after the fourth quarter of 1999.

KMC Holdings believes that its cash, investments held for future capital expenditures and borrowings available under the Senior Secured Credit Facility and the Lucent Facility, together with the net proceeds from its April 1999 issuance of its PIK Preferred Stock and the proceeds of the offering of the original notes will be sufficient to meet its liquidity needs through the completion of its initial 23 networks and the 14 additional networks currently planned for completion by the end of the first half of 2000. Additional sources of financing may include public or private equity or debt financings by the Company, capitalized leases and other financing arrangements.

Specifically, as demonstrated in its Cash Flow statement, KMC Holdings has access to ample capital to fund the construction and operation of KMC V's telecommunications network in Alabama, and to meet any lease and ownership obligations associated with its provision of local exchange telecommunications services in Tennessee.

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CONFORMED SUBMISSION TYPE: 10-Q

PUBLIC DOCUMENT COUNT: 2

CONFORMED PERIOD OF REPORT: 20000930

FILED AS OF DATE: 20001114

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME: KMC TELECOM HOLDINGS INC

CENTRAL INDEX KEY: 0001059851

STANDARD INDUSTRIAL CLASSIFICATION: [4899

] IRS NUMBER: 223545925

STATE OF INCORPORATION: DE

FISCAL YEAR END: 1231

</COMPANY-DATA>

FILING VALUES:

FORM TYPE: 10-Q

SEC ACT:

SEC FILE NUMBER: 333-50475

FILM NUMBER: 768494

</FILING-VALUES>

BUSINESS ADDRESS:

STREET 1: 1545 ROUTE 206

STREET 2: SUITE 300

CITY: BEDMINSTER

STATE: NJ

ZIP: 07921

BUSINESS PHONE: 9084702100

</BUSINESS-ADDRESS>

MAIL ADDRESS:

STREET 1: 1545 ROUTE 206

STREET 2: SUITE 300

CITY: BEDMINSTER

STATE: NJ

ZIP: 07921

</MAIL-ADDRESS>

</FILER>

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 333-50475

KMC TELECOM HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

22-3545325  
(I.R.S. Employer  
Identification No.)

1545 ROUTE 206, SUITE 300  
BEDMINSTER, NEW JERSEY 07921  
(Address, including zip code, of principal executive offices)

(908) 470-2100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS -----	OUTSTANDING -----
Common Stock, par value \$0.01 per share.	861,145 shares, as of November 8, 2000

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KMC TELECOM HOLDINGS, INC.

## INDEX

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PART I - FINANCIAL INFORMATION  
KMC TELECOM HOLDINGS, INC.  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

DECEMBER 3  
1999  
-----

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&lt;C&gt;

## ASSETS

## Current assets:

Cash and cash equivalents.....	\$85,9
Restricted investments.....	37,1
Accounts receivable, net of allowance for doubtful accounts of \$5,551 and \$7,665 in 1999 and 2000, respectively.....	27,3

Prepaid expenses and other current assets.....	1,3
Total current assets.....	151,8
Long term restricted investments.....	51,4
Networks, property and equipment, net.....	639,3
Intangible assets, net.....	3,6
Deferred financing costs, net.....	38,8
Other assets.....	1,0
	-----
	\$886,0
	=====
LIABILITIES, REDEEMABLE AND NONREDEEMABLE	
EQUITY (DEFICIENCY)	
Current liabilities:	
Accounts payable.....	\$167,4
Accrued expenses.....	37,0
Deferred revenue.....	4,3
	-----
Total current liabilities.....	208,8
Notes payable.....	235,0
Senior discount notes payable.....	301,1
Senior notes payable.....	275,0
	-----
Total liabilities.....	1,019,9
Commitments and contingencies	
Redeemable equity:	
Senior redeemable, exchangeable, PIK preferred stock, par value \$.01 per share; authorized:	
630 shares in 1999 and 2000; shares issued and outstanding:	
Series E, 65 shares in 1999 and 72 shares in 2000 (\$72,312 liquidation preference).....	50,7
Series F, 44 shares in 1999 and 46 shares in 2000 (\$46,178 liquidation preference).....	41,3
Redeemable cumulative convertible preferred stock, par value \$.01 per share; 499 shares authorized; shares issued and outstanding:	
Series A, 124 shares in 1999 and 2000 (\$12,380 liquidation preference)	71,3
Series C, 175 shares in 1999 and 2000 (\$17,500 liquidation preference)	40,3
Redeemable cumulative convertible preferred stock, par value \$.01 per share; 2,500 shares authorized; shares issued and outstanding:	
Series G-1, -0- shares in 1999, 59 shares in 2000 (\$19,900 liquidation preference).....	
Series G-2, -0- shares in 1999, 481 shares in 2000 (\$162,600 liquidation preference)	
Redeemable common stock, 224 shares issued and outstanding.....	33,7
Redeemable common stock warrants.....	12,9
	-----
Total redeemable equity.....	250,4
	-----
Nonredeemable equity (deficiency):	
Common stock, par value \$.01 per share; 3,000 shares authorized, 629 shares and 637 shares issued and outstanding in 1999 and 2000, respectively.....	
Unearned compensation.....	(9,1
Accumulated deficit.....	(375,2
	-----
Total nonredeemable equity (deficiency).....	(384,4
	-----
	\$886,0
	=====

&lt;/TABLE&gt;

See accompanying notes.

2

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## KMC TELECOM HOLDINGS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)<TABLE>  
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,	
	1999	2000
	<C>	<C>
Revenue.....	\$ 15,572	\$ 60,949
Operating expenses:		
Network operating costs:		
Non-cash stock compensation.....	(557)	482
Other network operating costs.....	23,631	46,944
Selling, general and administrative:		
Non-cash stock compensation.....	(6,404)	6,402
Other selling, general and administrative costs	22,479	41,058
Depreciation and amortization.....	7,593	20,431
Total operating expenses.....	46,742	115,317
Loss from operations.....	(31,170)	(54,368)
Other expense.....	-	-
Interest income.....	3,980	3,782
Interest expense.....	(21,834)	(36,073)
Net loss before cumulative effect of change in accounting principle.....	(49,024)	(86,659)
Cumulative effect of change in accounting principle.....	-	-
Net loss.....	(49,024)	(86,659)
Dividends and accretion on redeemable preferred stock..	1,330	(13,229)
Net loss applicable to common shareholders.....	\$ (47,694)	\$ (99,888)
Net loss per common share before cumulative effect of change in accounting principle.....	\$ (55.93)	\$ (116.06)
Cumulative effect of change in accounting principle....	-	-
Net loss per common share.....	\$ (55.93)	\$ (116.06)
Weighted average number of common shares outstanding...	852,676	860,639
Proforma amounts assuming the change in accounting principle was applied retroactively:		
Net loss applicable to common shareholders.....	\$ (48,226)	\$ (99,888)
Net loss per common share.....	\$ (56.56)	\$ (116.06)

&lt;/TABLE&gt;

See accompanying notes.

3

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## KMC TELECOM HOLDINGS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

&lt;TABLE&gt;

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## OPERATING ACTIVITIES

Net loss .....	--
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization.....	--
Non-cash interest expense.....	
Non-cash stock option compensation expense.....	
Changes in assets and liabilities:	
Accounts receivable.....	
Prepaid expenses and other current assets.....	
Other assets.....	
Accounts payable.....	
Accrued expenses.....	
Deferred revenue.....	--
Net cash used in operating activities.....	--

## INVESTING ACTIVITIES

Construction of networks and purchases of equipment.....	
Acquisitions of franchises, authorizations and related assets.....	
Purchases of investments, net.....	--
Net cash used in investing activities.....	--

## FINANCING ACTIVITIES

Proceeds from issuance of preferred stock and related warrants, net of issuance costs.....	
Proceeds from exercise of stock options.....	
Proceeds from issuance of senior notes, net of issuance costs and purchase of portfolio of restricted investments.....	
Repurchase and retirement of Series F preferred stock.....	
Proceeds from credit facilities, net of issuance costs.....	--
Net cash provided by financing activities.....	--

Net increase (decrease) in cash and cash equivalents.....	
Cash and cash equivalents, beginning of period.....	--

Cash and cash equivalents, end of period.....	==
---	----



## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the period for interest, net of amounts capitalized.....

==

&lt;/TABLE&gt;

See accompanying notes.

4

&lt;PAGE&gt;

KMC TELECOM HOLDINGS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2000

## 1. BASIS OF PRESENTATION AND ORGANIZATION

KMC Telecom Holdings, Inc. and its subsidiaries are collectively referred to herein as the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company is a fiber-based integrated communications provider providing data and voice services to its customers, principally business, government and institutional end-users, as well as Internet service providers, long distance companies and wireless service providers, primarily in the South, Southeast, Midwest and Mid-Atlantic United States.

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include certain information and note disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the financial statements and notes thereto of KMC Telecom Holdings, Inc. as of and for the year ended December 31, 1999.

The unaudited interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) which management considers necessary for a fair presentation of the results of operations for these periods. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The balance sheet of KMC Telecom Holdings, Inc. at December 31, 1999 was derived from the audited consolidated balance sheet at that date.

Certain reclassifications have been made to the 1999 unaudited condensed consolidated financial statements to conform with the 2000 presentation.

## 2. ACCOUNTING CHANGE

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), REVENUE RECOGNITION IN FINANCIAL STATEMENTS. SAB 101 provides additional guidance in applying generally accepted accounting principles to revenue recognition in financial statements. Through December 31, 1999, the Company recognized installation revenue upon completion of the installation. Effective January 1, 2000, in accordance with the provisions of SAB 101, the Company is recognizing installation revenue over the average contract period. The cumulative effect of this change in accounting principle resulted in a charge of approximately \$1.7 million which was recorded in the quarter ended March 31, 2000. For the nine months ended September 30,

2000, the net effect of adopting this change in accounting principle was a deferral of the recognition of \$3.5 million of revenue, which increased net loss for the period by \$4.10 per share. Revenue for the nine months ended September 30, 2000 includes \$1.6 million of revenues that, prior to the accounting change, had been recognized through December 31, 1999.

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### 3. NETWORKS, PROPERTY AND EQUIPMENT

Networks and equipment are comprised of the following:

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
	-----	-----
	(IN THOUSANDS)	
Fiber optic systems.....	\$ 164,985	\$ 242,454
Telecommunications equipment.....	421,718	531,981
Furniture and fixtures.....	21,397	26,832
Leasehold improvements.....	1,811	2,344
Construction-in-progress.....	66,380	127,149
	-----	-----
	676,291	930,760
Less accumulated depreciation.....	(36,967)	(87,899)
	-----	-----
	\$ 639,324	\$ 842,861
	=====	=====

Costs capitalized during the development of the Company's networks include amounts incurred related to network engineering, design and construction and capitalized interest. Capitalized interest related to the construction of the networks for the nine months ended September 30, 1999 and 2000 amounted to \$3.5 million and \$10.1 million, respectively.

### 4. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
	-----	-----
	(IN THOUSANDS)	
Franchise costs.....	\$ 2,015	\$ 2,807
Authorizations and rights-of-way.....	2,052	2,565
Building access agreements and other costs....	1,038	972
	-----	-----
	5,105	6,344
Less accumulated amortization.....	(1,503)	(1,975)
	-----	-----
	\$ 3,602	\$ 4,369
	=====	=====

### 5. ACCRUED EXPENSES

Accrued expenses are comprised of the following:

DECEMBER 31, 1999	SEPTEMBER 30, 2000
-----	-----
(IN THOUSANDS)	

Accrued compensation.....	\$ 11,423	\$ 21,101
Accrued costs related to financing activities...	7,316	11,498
Accrued interest payable.....	8,544	27,396
Accrued telecommunications costs.....	3,794	8,094
Other accrued expenses.....	5,970	23,914
	-----	-----
	\$ 37,047	\$ 92,003
	=====	=====

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## 6. SENIOR SECURED CREDIT FACILITIES

## AMENDED SENIOR SECURED CREDIT FACILITY

During the quarter ended March 31, 2000, our subsidiaries, KMC Telecom, Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc. and KMC Telecom III, Inc. (collectively, the "Borrowers"), amended, restated and combined the Senior Secured Credit Facility and the Lucent Facility, into a single facility by entering into a \$700 million Loan and Security Agreement (the "Amended Senior Secured Credit Facility") with a group of lenders led by Newcourt Commercial Finance Corporation, GE Capital Corporation, Canadian Imperial Bank of Commerce, First Union National Bank and Lucent Technologies Inc. (collectively, the "Lenders").

The Amended Senior Secured Credit Facility includes a \$175 million reducing revolver facility (the "Revolver"), a \$75 million term loan (the "Term Loan") and a \$450 million term loan facility (the "Lucent Term Loan"). At September 30, 2000, the outstanding loan balances on the Revolver, the Term Loan and the Lucent Term Loan, were approximately \$165 million, \$75 million, and \$341 million, respectively.

The Revolver will mature on April 1, 2007. Proceeds from the Revolver can be used to finance the purchase of certain equipment, transaction costs and, upon attainment of certain financial conditions, for working capital and other general corporate purposes. The aggregate commitment of the Lenders under the Revolver will be reduced on each quarterly payment date beginning April 1, 2003. The initial quarterly commitment reduction is 5.0%, reducing to 3.75% on July 1, 2003, then increasing to 6.25% on July 1, 2004, and further increasing to 7.50% on July 1, 2006. Commencing with the fiscal year ending December 31, 2001, the aggregate Revolver commitment will be further reduced by an amount equal to 50% of excess operating cash flows (as defined in the Amended Senior Secured Credit Facility) for the prior fiscal year until the Borrowers achieve certain financial conditions. The Borrowers must pay an annual commitment fee on the unused portion of the Revolver ranging from .75% to 1.25%.

The Term Loan is payable in twenty consecutive quarterly installments of \$188,000 beginning on April 1, 2002 and two final installments of \$35.6 million each on April 1, 2007 and July 1, 2007. Proceeds from the Term Loan can be used to finance the purchase of certain equipment, transaction costs, working capital and other general corporate purposes.

The Lucent Term Loan provides for an aggregate commitment of up to \$450 million. Proceeds from the Lucent Term Loan can be used to purchase Lucent products or to reimburse the Borrowers for Lucent products previously purchased with cash or other sources of liquidity. The Lucent Term Loan will mature on July 1, 2007 and requires quarterly principal payments beginning on July 1, 2003 of 5%. The principal payment decreases to 3.75% per quarter beginning on October 1, 2003, increases to 6.25% on October 1, 2004 and further increases to 7.50% on October 1, 2006. An annual commitment fee of 1.50% is payable for any unused portion of the Lucent Term Loan.

Borrowings under the Amended Senior Secured Credit Facility will bear interest payable, at the Borrowers' option, at either (a) the "Applicable Base Rate Margin" (which generally ranges from 2.00% to 3.25%) plus the greater of (i) the administrative agent's prime rate or (ii) the overnight federal funds rate plus .5% or (b) the "Applicable LIBOR Margin" (which generally ranges from 3.00% to 4.25%) plus LIBOR, as defined. "Applicable Base Rate Margin" interest is payable quarterly while "Applicable LIBOR Margin" interest is payable at the end of each applicable interest period or at least every three months. Under the Amended Senior Secured Credit Facility the Borrowers were being charged a weighted average interest rate of 11.87% at September 30, 2000. If a payment default were to occur, the interest rate will be increased by four percentage points. If any other event of default were to occur, the interest rate will be increased by two percentage points.

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KMC Holdings has unconditionally guaranteed the repayment of the Amended Senior Secured Credit Facility when such repayment is due, whether at maturity, upon acceleration, or otherwise. KMC Holdings has pledged the shares of each of the Borrowers to the Lenders to collateralize its obligations under the guaranty. In addition, the Borrowers have each pledged all of their assets to the Lenders.

The amended senior secured credit facility contains a number of affirmative and negative covenants, one of which requires us to make additional cash capital contributions to our subsidiaries which are the borrowers thereunder of at least \$35 million prior to August 31, 2001. The original covenant required \$185 million in cash capital contributions by April 1, 2001. However, because we contributed \$150 million of the proceeds of our Series G private equity financing toward fulfilling this requirement, the lenders amended this covenant by extending the due date on the remaining \$35 million of cash capital contributions to August 31, 2001. Because the entire \$185 million cash capital contribution was not made by July 31, 2000, however, the applicable interest rate associated with the facility has increased by 100 basis points until the remaining \$35 million amount is contributed. Additional affirmative and negative covenants include, among others, covenants restricting the ability of the Borrowers to consolidate or merge with any person, sell or lease assets not in the ordinary course of business, sell or enter into long term leases of dark fiber, redeem stock, pay dividends or make any other payments (including payments of principal or interest on loans) to KMC Holdings, create subsidiaries, transfer any permits or licenses, or incur additional indebtedness or act as guarantor for the debt of any person, subject to certain conditions.

The Borrowers are required to comply with certain financial tests and maintain certain financial ratios, including, among others, a ratio of total debt to contributed capital, certain minimum revenues, maximum EBITDA losses and minimum EBITDA, maximum capital expenditures and minimum access lines, a maximum total leverage ratio, a minimum debt service coverage ratio, a minimum fixed charge coverage ratio and a maximum consolidated leverage ratio. The covenants become more restrictive upon the earlier of (i) March 31, 2002 and (ii) after the Borrowers achieve positive EBITDA on a combined basis for two consecutive fiscal quarters and a total leverage ratio (as defined) equal to or less than 9 to 1.

Failure to satisfy any of the financial covenants will constitute an event of default under the Amended Senior Secured Credit Facility permitting the Lenders, after notice, to terminate the commitment and/or accelerate payment of outstanding indebtedness thereunder. The Amended Senior Secured Credit Facility also includes other customary events of default, including, without limitation, a cross-default to other material indebtedness, material undischarged judgments, bankruptcy, loss of a material franchise or material license, breach of

representations and warranties, a material adverse change, and the occurrence of a change of control.

#### TELECOM IV SENIOR SECURED TERM LOAN

During the quarter ended June 30, 2000, our subsidiary, KMC Telecom, IV, Inc., closed a new senior secured term loan (the "Telecom IV Loan") from Lucent Technologies Inc. The Telecom IV Loan initially provides up to \$35 million of principal borrowings, plus accrued interest, until certain conditions are met and then provides for additional principal borrowings up to a ceiling of \$50 million, plus accrued interest. Proceeds from the Telecom IV Loan can be used to purchase or install Lucent products and will be used to purchase equipment for future expansion. The Telecom IV Loan will mature on October 1, 2007 and requires quarterly principal payments beginning on January 1, 2003 of 2.5% of the outstanding principal balance, with the percentage increasing to 5% on January 1, 2005, 6.25% on October 1, 2005, and 7.5% on October 1, 2006, with the balance due on October 1, 2007. As of September 30, 2000, the outstanding principal loan balance on this term loan was approximately \$35 million.

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Borrowings under the Telecom IV Loan will bear interest payable, at the Company's option, at either (a) the Applicable Base Rate Margin (which generally ranges from 2.25% to 3.50% based on the Company's total debt to total contributed capital ratio) plus the greater of (i) the administrative agent's prime rate or (ii) the overnight federal funds rate plus .5% or (b) the LIBOR Rate plus the Applicable Margin (which generally ranges from 3.25% to 4.50% based on the Company's debt to contributed capital ratio). "Applicable Base Rate Margin" interest is payable quarterly while "Applicable LIBOR Margin" interest is payable at the end of each applicable interest period, or at least every three months. Under the Telecom IV Loan, the Company was being charged a weighted average interest rate of 11.31% at September 30, 2000. There are no financial covenants on this loan. However, there are affirmative and negative covenants that, generally, are no more restrictive to the Company than the Company's other debt agreements. If any events of default were to occur, the interest rate would increase by two percentage points.

#### 7. SERVICE REVENUES

The Company provides on-network services and resells switched services previously purchased from the incumbent local exchange carrier. On-network services include services provided through direct connections to our own networks, services provided by means of unbundled network elements leased from the incumbent local exchange carrier and dedicated circuits. The Company's service revenues consist of the following:

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE SE
	1999	2000	1999
	(in thousands)		(in
<S>	<C>	<C>	<C>
On-network.....	\$ 10,778	\$ 58,408	\$ 25,
Resale.....	4,794	2,541	16,
Total.....	\$ 15,572	\$ 60,949	\$ 42,

&lt;/TABLE&gt;

## 8. COMMITMENTS AND CONTINGENCIES

## PURCHASE COMMITMENTS

As of September 30, 2000, the Company has outstanding commitments aggregating approximately \$96.5 million related to purchases of telecommunications equipment and fiber optic cable and its obligations under its agreements with certain suppliers.

## REDEMPTION RIGHTS

Pursuant to a stockholders agreement, certain of the Company's stockholders and warrant holders have "put rights" entitling them to have the Company repurchase their preferred and common shares and redeemable common stock warrants for the fair value of such securities if no Liquidity Event (defined as (i) an initial public offering with gross proceeds of at least \$40 million, (ii) the sale of substantially all of the stock or assets of the Company or (iii) the merger or consolidation of the Company with one or more other corporations) has taken place by the later of (x) October 22, 2003 or (y) 90 days after the final maturity date of the Senior Discount Notes. The restrictive covenants of the Senior Discount Notes limit the Company's ability to repurchase such securities. All of the securities subject to such "put rights" are presented as redeemable equity in the accompanying balance sheets.

The redeemable preferred stock, redeemable common stock and redeemable common stock warrants, which are subject to the stockholders agreement, are being accreted up to their fair market values from their respective issuance dates to their earliest potential redemption date (October 22, 2003). At

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September 30, 2000, the aggregate redemption value of the redeemable equity was approximately \$580 million, reflecting per share redemption amounts of \$1,454 for the Series A Preferred Stock, \$711 for the Series C Preferred Stock, \$338 for the Series G Preferred Stock and \$300 for the redeemable common stock and redeemable common stock warrants.

## 9. NET LOSS PER COMMON SHARE

The following table sets forth the computation of net loss per common share-basic (in thousands, except share and per share amounts):

&lt;TABLE&gt;

&lt;CAPTION&gt;

	THREE MONTHS END SEPTEMBER 30,	
	1999	2
	<C>	<C>
<S>		
Numerator:		
Net loss before cumulative effect of change in accounting	\$ (49,024)	\$ (86
Cumulative effect of change in accounting principle.....	-	-
Net loss.....	(49,024)	(86
Dividends and accretion on redeemable preferred stock.....	1,330	(13
Numerator for net loss applicable to common shareholders..	\$ (47,694)	\$ (99
	=====	=====

## Denominator:

Denominator for net loss per common share-weighted average number of common shares outstanding.....	852,676	860
Net loss per common share before cumulative effect of change in accounting principle - basic.....	\$ (55.93)	\$ (11
Cumulative effect of change in accounting principle.....	-	-
Net loss per common share - basic.....	\$ (55.93)	\$ (11
	=====	=====

&lt;/TABLE&gt;

Options and warrants to purchase an aggregate of 483,273 and 666,730 shares of common stock were outstanding as of September 30, 1999 and 2000, respectively, but a computation of diluted net loss per common share has not been presented, as the effect would be anti-dilutive.

## 10. SIGNIFICANT CONTRACTS AND CUSTOMERS

In March 2000, the Company entered into an agreement with Qwest Communications Corporation ("Qwest"), pursuant to which (i) the Company took delivery of approximately \$134 million of Internet infrastructure equipment from Qwest and (ii) the Company agreed to install and maintain this equipment, in over 90 cities throughout the United States, principally to handle Internet service provider traffic on behalf of Qwest. As amended, the services agreement is for a term of 51 months, commencing November 2000 and expiring January 2005. The Company entered into a lease financing transaction in June 2000 to fund the entire cost of this equipment.

In June 2000, the Company entered into a second agreement with Qwest, pursuant to which (i) the Company took delivery of approximately \$168 million of Internet infrastructure equipment from Qwest and (ii) the Company agreed to install and maintain this equipment throughout the United States, principally to handle Internet service provider traffic on behalf of Qwest. The second services agreement commences in November 2000 and expires in July 2005. The Company entered into a financing transaction to fund the cost of this equipment in November 2000 (see Note 15).

Contracts with Qwest accounted for approximately 30% of the Company's total revenue during the nine months ended September 30, 2000. A significant portion of the Qwest business was generated from long term guaranteed revenue contracts. For the nine months ended September 30, 1999, no one customer accounted for more than 10% of revenue.

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## 11. INTEREST RATE SWAP AGREEMENTS

## AMENDED AND RESTATED INTEREST RATE SWAP AGREEMENT

In April 2000, the Company entered into an amended and restated interest rate swap agreement (the "Amended Swap") with a commercial bank to reduce the impact of changes in interest rates on its outstanding variable rate debt. The Amended Swap effectively fixes the Company's interest rate on \$325 million of outstanding variable rate borrowings under the Amended Senior Secured Credit Facility (see Note 6) through April 2003 after which time the Amended Swap is reduced to \$225 million through January 2004 and then finally reduced to \$100 million until termination of the Amended Swap in April 2005. The Company is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Company does not anticipate nonperformance by the counterparty.

## JUNE 2000 SWAP

In June 2000, the Company entered into an interest rate swap agreement (the "June 2000 Swap") with a commercial bank to reduce the impact of changes in interest rates on its outstanding variable rate debt. The June 2000 Swap effectively fixes the Company's interest rate on an additional \$90 million of its long-term debt for a period of 5 years. The Company is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Company does not anticipate nonperformance by the counterparty.

## 12. BELL SOUTH RECIPROCAL COMPENSATION SETTLEMENT

In May 2000, the Company reached a resolution of its claims for payment of certain reciprocal compensation charges, previously disputed by BellSouth Corporation. Under the agreement, BellSouth made a one-time payment that resolved all amounts billed through March 31, 2000. In addition, BellSouth and the Company agreed to future rates for reciprocal compensation, setting new contractual terms for payment. Under the terms of the agreement, the rates for reciprocal compensation will be reduced, and will apply to all local traffic, including ISP-bound traffic, thereby eliminating the principal area of dispute between the parties. The reduction will be phased in over a three-year period beginning with a rate of \$.002 per minute of use in year 2000, \$.00175 per minute of use for 2001 and \$.0015 per minute of use for 2002.

## 13. EQUITY TRANSACTIONS

## SERIES G PREFERRED EQUITY

In July 2000, the Company issued 58,881 and 481,108 shares of Series G-1 Voting and G-2 Non-Voting Convertible Preferred Stock (the "Series G Preferred Stock"), respectively, to Lucent Technologies, Dresdner Kleinwort Benson Private Equity Partners, CIT Lending Services, Nassau Capital Partners and Harold N. Kamine, its Chairman of the Board, for aggregate gross proceeds of \$182.5 million. The Series G Preferred Stock has a liquidation preference of \$337.97 per share and an annual cumulative dividend equal to 7% of the liquidation preference. Payment of the unpaid dividends is triggered by (i) an initial public offering in which the Company receives aggregate gross proceeds of at least \$80 million or (ii) a merger, consolidation or sale of substantially all assets.

Each share of Series G Preferred Stock is convertible into a number of shares of common stock equal to the liquidation preference of each share divided by the conversion price then in effect. Initially, the conversion price is \$337.97. However, this price is adjustable, subject to certain exceptions, upon the occurrence of certain events including (i) the issuance or sale of common

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stock for a consideration per share less than the conversion price, (ii) the issuance of rights or options to acquire common stock or convertible securities with an exercise price less than the conversion price and (iii) the issuance or sale of other convertible securities with a conversion or exchange price lower than the conversion price. The Series G Preferred Stock will be automatically converted into common stock upon (i) a Qualified Public Offering, defined as sale of common stock pursuant to a registration statement in which the Company receives aggregate gross proceeds of at least \$80 million, provided that the per share price at which such shares are sold in such offering is not less than the liquidation preference then in effect, or (ii) the election of holders of at least two-thirds of the outstanding shares of Series G Preferred Stock.



The Series G Preferred Stock ranks senior to the common stock, Series A Convertible Preferred Stock and Series C Convertible Preferred Stock, on a parity with the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock and junior to the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock. The Series G-1 shareholders are entitled to vote on all matters before the common holders, as a single class with the common, on an as if converted basis.

Subject to certain limitations and conditions, at the request of the holders of at least two-thirds of the Series G Preferred Stock, the Company may be required to redeem the Series G Preferred Stock upon (i) a change of control or sale of the Company, or (ii) August 15, 2009.

#### REPURCHASE AND RETIREMENT OF SERIES F PREFERRED STOCK

In September 2000, the Company repurchased and retired 2,965 shares of Series F preferred stock at 110% of its liquidation preference plus accrued and unpaid dividends for approximately \$3.3 million in accordance with the provisions of the certificate of designation applicable to the Series F preferred stock.

#### 14. INITIAL PUBLIC OFFERING FILING

On September 19, 2000, the Company filed a Form S-1 registration statement with the Securities and Exchange Commission covering an initial public offering of the Company's common stock. As of the date hereof, the Form S-1 has not become effective and the Company's equity securities are not publicly traded.

#### 15. SUBSEQUENT EVENTS

##### QWEST INTERNET INFRASTRUCTURE EQUIPMENT FINANCING

In November 2000, our subsidiary, KMC Telecom Funding Corporation, entered into an agreement with Dresdner Kleinwort Benson North American Leasing, Inc. to finance the \$168 million of Internet infrastructure equipment purchased from Qwest in June 2000 (See Note 10). The Loan will be paid back over a term of 48 months at a rate of 200 basis points above LIBOR through October 15, 2001 and 600 basis points over LIBOR thereafter.

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#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This form 10-Q contains forward-looking statements. These statements reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. In some cases, you can identify these statements by forward-looking words such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "should", "will", "would" and similar expressions. These forward-looking statements are based on all information currently available to us and subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities to differ materially from these expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include matters related to:

- o our operations and prospects,
- o our expected financial position,
- o our funding needs and financing sources,
- o the possibility that changes in financial performance may affect our compliance with financial covenants under our amended senior

- secured credit facility,
- o our network construction and development plans,
- o the ability of tier iii markets to profitably support one or more competitive telecommunications companies,
- o regulatory matters, and
- o expected competitors in our markets.

All subsequent written and oral forward-looking statements by or attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the securities and exchange commission pursuant to the commission's rules, we have no duty to update these statements.

#### OVERVIEW

We are a rapidly growing fiber-based integrated communications provider offering data, voice and Internet infrastructure services. We offer these services to businesses, governments and institutional end-users, Internet service providers, long distance carriers and wireless service providers. Our business has two distinct components: serving communications-intensive customers in Tier III markets, and providing data services on a nationwide basis.

We provide a full suite of broadband communications services in 35 Tier III markets, which we define as markets with a population between 100,000 and 750,000. We own and operate robust fiber-based networks and Lucent switching equipment in all of our Tier III markets, which are predominantly located in the South, Southeast, Midwest and Mid-Atlantic United States. We will continue to expand in Tier III markets because we believe that these markets have attractive growth attributes and are typically less competitive than larger markets. Our customers in these markets include: AT&T, Boeing, City of Augusta, Columbia Hospital, NASA, Pillsbury, State of Wisconsin, Texas A&M University and Wal-Mart.

We also provide nationwide data services under long-term guaranteed revenue contracts with Qwest and Broadwing. Under these contracts, we provide local Internet access infrastructure and other enhanced data services. Currently, we have contracts representing approximately \$250 million in annualized revenues in approximately 140 markets. We expect these markets to be

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operational by the first half of 2001. The Internet infrastructure we are deploying includes technologically advanced platforms from Cisco and Nortel, which we believe will result in a cost-effective and technologically superior solution for our customers.

**TIER III MARKETS.** We have installed fiber-based SONET networks, or self-healing synchronous optical networks, using a Lucent 5ESS(R) switch in each of our 35 operational markets, and are currently constructing networks in two additional Tier III markets using a similar architecture. Our fiber optic networks are initially designed and built to reach approximately 80% of the business access lines in each of our markets, typically requiring a local fiber loop of about 30 to 40 miles.

As our switches have become operational, our operating margins have improved meaningfully. Our operating margins have also improved due to increased on-network revenues relative to resale revenues. On-network revenues are revenues earned from services provided on our network, including by direct connection to our switch, unbundled network element or dedicated circuit. Resale revenues are generated when traffic is carried completely on the incumbent local

exchange carriers' facilities. Resale revenues have declined from approximately 56% of our revenues during the first quarter of 1999 to approximately 4% of our total revenues during the third quarter of 2000.

**NATIONWIDE DATA PLATFORM.** We currently provide Internet access infrastructure for Qwest and Broadwing. We provide this service using remote access servers manufactured by Cisco and Nortel which we are deploying in our supernodes. Supernodes are concentration points for high-speed connectivity to the Internet. We will have 44 supernodes, including nine in our existing markets.

Under the terms of our existing guaranteed revenue contracts, we provide the routing and ancillary equipment for each supernode, as well as data transport service from the incumbent local exchange carrier to our supernode location. Our customers pay us a fixed price per port and compensate us for certain expenses, including space, power and transport, that we may incur above an agreed level. This structure provides highly predictable revenues and costs over the life of each contract, currently ranging from 51 to 57 months. One of these contracts began generating revenues during the third quarter of 2000. Revenues will continue to increase as the contracts are phased in through the second quarter of 2001. We expect these contracts to provide positive margins and cash flow beginning with the commencement of revenues in the third quarter of 2000.

We purchased approximately \$134.4 million of equipment relating to these contracts during the first quarter of 2000. We sold this equipment to General Electric Credit Corporation and CIT Lending Services Corporation, and leased it back from them, during the second quarter of 2000. The term of this sale-leaseback, including renewal periods, matches the initial term of these data contracts. We purchased an additional \$168.6 million of equipment relating to these contracts during the second quarter of 2000, and in November 2000 obtained financing for this balance from Dresdner Kleinwort Benson North American Leasing, Inc.

**REVENUE.** Our revenue is derived from the sale of local switched services, long distance services, Centrex-type services, private line services, special access services and Internet access infrastructure. Historically, a significant portion of our revenue has been derived from the resale of switched services. We have transitioned the majority of our customers on-network and as a result the portion of our revenue related to the resale of switched services has decreased to 7% of total revenue for the nine months ended September 30, 2000. We expect that the revenue recognized related to the nationwide data platform guaranteed revenue contracts will continue to increase through the first quarter of 2001 as we begin providing services under these contracts.

**RECIPROCAL COMPENSATION.** We recognized reciprocal compensation revenue of approximately \$9.7 million, or 15.1% of our total revenue for 1999 and approximately \$14.3 million or 11.1% of our total revenue for the nine months ended September 30, 2000. In May 2000, we reached a resolution of our claims for

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payment of certain reciprocal compensation charges, previously disputed by BellSouth Corporation (see Note 12 of the Notes to Unaudited Condensed Consolidated Financial Statements included in Item 1). Under the agreement, BellSouth made a one-time payment that resolved all amounts billed through March 31, 2000. In addition, we agreed with BellSouth on future rates for reciprocal compensation, setting new contractual terms for payment. Our prior agreement with BellSouth provided for a rate of \$.009 per minute of use for reciprocal compensation. Under the terms of the new agreement, the rates for reciprocal compensation which will apply to all local traffic, including ISP-bound traffic, will decrease over time. The reduction will be phased in over a three-year

period beginning with a rate of \$.002 per minute of use in year 2000, \$.00175 per minute of use in year 2001 and \$.0015 per minute of use in year 2002.

We are currently pursuing resolution of this issue with other incumbent local exchange carriers. Our goal is to reach mutually acceptable terms for both outstanding and future reciprocal compensation amounts for all traffic. We cannot assure you that we will reach new agreements with these carriers on favorable terms.

As of September 30, 2000, we have provided reserves which we believe are sufficient to cover any amounts which may not be collected, but we cannot assure you that this will be the case. Our management will continue to consider the circumstances surrounding this dispute periodically in determining whether additional reserves against unpaid balances are warranted.

**OPERATING EXPENSES.** Our principal operating expenses consist of network operating costs, selling, general and administrative expenses, stock option compensation expense and depreciation and amortization. Network operating costs include charges for termination and unbundled network element charges; charges from incumbent local exchange carriers for resale services; charges from long distance carriers for resale of long distance services; salaries and benefits associated with network operations, billing and information services and customer care personnel; franchise fees and other costs. Network operating costs also include a percentage of both our intrastate and interstate revenues which we pay as universal service fund charges. National data platform operating expenses include space, power, transport, maintenance, staffing, sales, general and administrative and rental expenses under our operating lease agreement. Certain of these costs are passed through to the carrier customer, which allows us to limit our maintenance and servicing costs to a predetermined level, and to receive offsetting revenues for any costs in excess of that level. Selling, general and administrative expenses consist of sales personnel and support costs, corporate and finance personnel and support costs and legal and accounting expenses. Depreciation and amortization includes charges related to plant, property and equipment and amortization of intangible assets, including franchise acquisition costs. Depreciation and amortization expense will increase as we place additional networks into service or expand existing networks.

**INTEREST EXPENSE.** Interest expense includes interest charges on our senior notes, senior discount notes and our senior secured credit facilities. Interest expense also includes amortization of deferred financing costs.

#### RESULTS OF OPERATIONS

As a result of the development and rapid growth of the Company's business during the periods presented, the period-to-period comparisons of the Company's results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

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#### THREE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1999

**REVENUE.** Revenue increased 290% from \$15.6 million for the three months ended September 30, 1999 (the "1999 Third Quarter") to \$60.9 million for the three months ended September 30, 2000 (the "2000 Third Quarter"). This increase is attributable to our Tier III business deriving revenues from 35 markets during the 2000 Third Quarter compared to 23 markets during the 1999 Third Quarter, as well as to the fact that our data services business began to generate revenues for the first time in the 2000 Third Quarter.

On-network local switched services, long distance services,

Centrex-type services, private line services, special access services and Internet access infrastructure revenues ("On-network revenues") represented 96% of total revenue in the 2000 Third Quarter, compared to 69% of total revenue in the 1999 Third Quarter; while revenue derived from the resale of switched services ("Resale revenue") represented 4% and 31% of total revenue, respectively, during those periods. On-network revenues are revenues earned from services provided on our network, including by direct connection to our switch, unbundled network element or dedicated circuit. In addition, we recognized reciprocal compensation revenue of \$4.0 million, or 7% of our total revenues during the 2000 Third Quarter.

**NETWORK OPERATING COSTS.** Network operating costs, excluding non-cash stock compensation expense, increased 99% from \$23.6 million for the 1999 Third Quarter to \$46.9 million for the 2000 Third Quarter. This increase of approximately \$23.3 million was due primarily to the increase in the number of markets in which we operated in the 2000 Third Quarter as compared to the 1999 Third Quarter and that we began making operating lease payments in the 2000 Third Quarter related to the equipment utilized in the data services business. The detailed components of this increase are \$12.6 million in direct costs associated with providing on-network services, resale services, leasing unbundled network element services and operating lease payments, \$3.9 million in personnel costs, \$3.1 million in consulting and professional services costs, \$2.4 million in network support services, \$600,000 in telecommunications costs, and \$700,000 in other direct operating costs.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses, excluding non-cash stock compensation expense, increased 83% from \$22.5 million for the 1999 Third Quarter to \$41.1 million in the 2000 Third Quarter. This increase of approximately \$18.6 million is due primarily to the increase in the number of markets in which we operated in the 2000 Third Quarter as compared to the 1999 Third Quarter. The detailed components of this increase are \$8.3 million in personnel costs, \$3.9 million in consulting and professional services costs, \$1.8 million in facility costs, \$800,000 in telecommunications costs, \$600,000 in travel related costs, as well as increases in other marketing and general and administrative costs aggregating approximately \$3.2 million.

**STOCK OPTION COMPENSATION EXPENSE.** Stock option compensation expense, a non-cash charge, increased from an aggregate of negative \$7.0 million in the 1999 Third Quarter to an aggregate of \$6.9 million for the 2000 Third Quarter. This increase is due primarily to a more stable estimated fair value of the Company's common stock in the 2000 Third Quarter compared to the 1999 Third Quarter when the estimated fair value of the Company's common stock had decreased.

**DEPRECIATION AND AMORTIZATION.** Depreciation and amortization expense increased 168% from \$7.6 million for the 1999 Third Quarter to \$20.4 million for the 2000 Third Quarter. This increase is due primarily to depreciation expense associated with the greater number of networks in commercial operation during the 2000 Third Quarter.

**INTEREST INCOME.** Interest income decreased 5% from \$4.0 million in the 1999 Third Quarter to \$3.8 million in the 2000 Third Quarter. The decrease is

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due primarily to larger average cash, cash equivalent and restricted cash balances during the 1999 Third Quarter as compared to the 2000 Third Quarter.

**INTEREST EXPENSE.** Interest expense increased 66% from \$21.8 million in the 1999 Third Quarter to \$36.1 million in the 2000 Third Quarter. Of this increase, \$13.1 million is attributable to higher borrowings under the Amended

Senior Secured Credit Facility and \$1.2 million is due to the additional accretion on the Senior Discount Notes. We capitalized interest of \$2.2 million related to network construction projects during the 1999 Third Quarter and \$4.2 million during the 2000 Third Quarter.

NET LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. For the reasons stated above, net loss before cumulative effect of change in accounting principle increased from \$49.0 million for the 1999 Third Quarter to \$86.7 million for the 2000 Third Quarter.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO  
NINE MONTHS ENDED SEPTEMBER 30, 1999

REVENUE. Revenue increased 205% from \$42.3 million for the nine months ended September 30, 1999 (the "1999 Nine Months") to \$129.0 million for the nine months ended September 30, 2000 (the "2000 Nine Months"). This increase is attributable to the fact that our Tier III business derived revenues from 35 markets during the 2000 Nine Months compared to 23 markets during the 1999 Nine Months as well to the fact that our data services business began to generate revenues for the first time in the 2000 Third Quarter.

On-network local switched services, long distance services, Centrex-type services, private line services, special access services and Internet access infrastructure revenues ("On-network revenues") represented 93% of total revenue in the 2000 Nine Months, compared to 60% of total revenue in the 1999 Nine Months; while revenue derived from the resale of switched services ("Resale revenue") represented 7% and 40% of total revenue, respectively, during those periods. On-network revenues include revenues derived from services provided through direct connections to our own networks, services provided by means of unbundled network elements leased from the incumbent local exchange carrier and services provided by dedicated circuit. In addition, we recognized reciprocal compensation revenue of approximately \$14.3 million or 11.1% of our total revenue for the nine months ended September 30, 2000.

NETWORK OPERATING COSTS. Network operating costs, excluding non-cash stock compensation expense, increased 100% from \$56.2 million for the 1999 Nine Months to \$112.2 million for the 2000 Nine Months. This increase of approximately \$56.0 million was due primarily to the increase in the number of markets in which we operated in the 2000 Nine Months as compared to the 1999 Nine Months and to the fact that we first began to make operating lease payments in the 2000 Third Quarter related to the equipment utilized in the data services business. The detailed components of this increase are \$24.8 million in direct costs associated with providing on-network services, resale services, leasing unbundled network element services and operating lease payments, \$15.3 million in personnel costs, \$7.0 million in network support services, \$4.6 million in consulting and professional services costs, \$2.1 million in telecommunications costs and \$2.2 million in other direct operating costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses, excluding non-cash stock compensation expense, increased 98% from \$60.7 million for the 1999 Nine Months to \$120.1 million in the 2000 Nine Months. This increase of approximately \$59.4 million is due primarily to the increase in the number of markets in which we operated in the 2000 Nine Months as compared to the 1999 Nine Months. The detailed components of this increase are \$30.5 million in personnel costs, \$5.1 million in consulting and professional services, \$4.1 million in facility costs, \$2.5 million in telecommunications costs, \$2.2 million in travel related costs, as well as increases in other marketing and general and administrative costs aggregating approximately \$15.0 million.

**STOCK OPTION COMPENSATION EXPENSE.** Stock option compensation expense, a non-cash charge, in aggregate increased 124% from \$13.2 million in the 1999 Nine Months to \$29.6 million for the 2000 Nine Months. This increase is due primarily to an increase in the estimated fair value of the Company's Common Stock, as well as the grant of additional option awards, in the 2000 Nine Months, as compared to the 1999 Nine Months.

**DEPRECIATION AND AMORTIZATION.** Depreciation and amortization expense increased 168% from \$19.2 million for the 1999 Nine Months to \$51.5 million for the 2000 Nine Months. This increase is due primarily to depreciation expense associated with the greater number of networks in commercial operation during the 2000 Nine Months.

**OTHER EXPENSE.** During the 1999 Second Quarter, the Company recorded a \$4.3 million charge to other expense in connection with an unfavorable arbitration award. The net amount due under the terms of the award was paid in full in June 1999.

**INTEREST INCOME.** Interest income increased 19% from \$7.0 million in the 1999 Nine Months to \$8.3 million in the 2000 Nine Months. The increase is due primarily to larger average cash, cash equivalent and restricted cash balances during the 2000 Nine Months as compared to the 1999 Nine Months as well as receiving interest at a higher average rate.

**INTEREST EXPENSE.** Interest expense increased 98% from \$47.8 million in the 1999 Nine Months to \$94.5 million in the 2000 Nine Months. Of this increase \$27.4 million is attributable to higher borrowings under the Amended Senior Secured Credit Facility, \$14.9 million is related to the issuance of \$275 million of 13 1/2 % Senior Notes in May 1999 and \$4.4 million is due to the additional accretion on the Senior Discount Notes. We capitalized interest of \$3.5 million related to network construction projects during the 1999 Nine Months and \$10.1 million during the 2000 Nine Months.

**NET LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.** For the reasons stated above, net loss before cumulative effect of change in accounting principle increased from \$152.2 million for the 1999 Nine Months to \$270.6 million for the 2000 Nine Months.

#### LIQUIDITY AND CAPITAL RESOURCES

We have incurred significant operating and net losses as a result of the development and operation of our networks. We expect that such losses will continue as we emphasize the development, construction and expansion of our networks and build our customer base. As a result, we do not expect there to be any cash provided by operations in the near future. We will also need to fund the expansion of our existing networks and the building of new networks as well as to fund our capital expenditures related to our nationwide data platform business. To date, we have financed our operating losses and capital expenditures with equity invested by our founders, preferred stock placements, credit facility borrowings, operating leases and the 12 1/2% Senior Discount Notes and the 13 1/2% Senior Notes.

During the first quarter of 2000, we amended, restated and combined our prior Senior Secured Credit Facility and our prior Lucent Facility in a single \$700.0 million facility (See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements). Under the amended senior secured credit facility, our subsidiaries which own our 35 existing networks and the 2 Tier III networks which are to be completed during 2000 are permitted to borrow up to an aggregate of \$700.0 million, subject to certain conditions, for the purchase of fiber optic cable, switches and other telecommunications equipment and, once certain financial conditions are met, for working capital and other general corporate purposes.

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During the quarter ended June 30, 2000, our subsidiary, KMC Telecom, IV, Inc., closed a new senior secured term loan (the "Telecom IV Senior Secured Term Loan") from Lucent Technologies Inc. Proceeds from this loan can be used to purchase or install Lucent products. The loan is initially capped at \$35.0 million of principal borrowings (plus accrued interest) until certain conditions are met that allow for additional borrowings up to a ceiling of \$50.0 million (plus accrued interest). This loan will be used to purchase equipment for future expansion.

In July 2000, we issued shares of Series G Convertible Preferred Stock to Lucent Technologies, Dresdner Kleinwort Benson Private Equity Partners, CIT Lending Services, Nassau Capital Partners and Harold N. Kamine, our Chairman, for aggregate gross proceeds of \$182.5 million (See Note 13 of the Notes to Unaudited Condensed Consolidated Financial Statements). The Series G Convertible Preferred Stock has an aggregate liquidation preference of \$182.5 million and an annual cumulative dividend equal to 7% of the liquidation preference. Payment of the unpaid dividends is triggered by an initial public offering in which we receive aggregate gross proceeds of at least \$80.0 million or a merger, consolidation or sale of substantially all of our assets. In such event, we may elect to pay these dividends with additional shares of our common stock.

As of November 8, 2000, we had \$581.3 million and \$34.8 million of indebtedness outstanding under the amended senior secured credit facility and the Telecom IV senior secured term loan, respectively. Subject to certain conditions, as of November 8, 2000, we had an additional \$118.7 million and \$200,000 in borrowing capacity available under these facilities, respectively. The amended senior secured credit facility contains a number of affirmative and negative covenants, one of which requires us to make additional cash capital contributions to our subsidiaries which are the borrowers thereunder of at least \$35.0 million prior to August 31, 2001. The original covenant required \$185.0 million in cash capital contributions by April 1, 2001. However, because we contributed \$150.0 million of the proceeds of our Series G private equity financing toward fulfilling this requirement, the lenders amended this covenant by extending the due date on the remaining \$35.0 million of cash capital contributions to August 31, 2001. Because the entire \$185.0 million cash capital contribution was not made by July 31, 2000, however, the applicable interest rate associated with the facility has increased by 100 basis points until the remaining \$35.0 million amount is contributed.

Net cash provided by financing activities from borrowings was \$550.6 million and our net cash used in operating and investing activities was \$508.0 million for the 2000 Nine Months.

We made capital expenditures of \$218.5 million in the 1999 Nine Months versus \$254.5 million in the 2000 Nine Months. As of September 30, 2000 we had outstanding purchase commitments aggregating approximately \$96.5 million related to the purchase of fiber optic cable and telecommunication equipment under our agreements with certain suppliers and service providers. Continued significant capital expenditures are expected to be made during the remainder of 2000 and thereafter. The majority of these expenditures are expected to be made for network construction and the purchase of switches and related equipment to facilitate the offering of our services. We expect to continue to incur operating losses while we expand our business and build our customer base. Actual capital expenditures and operating losses will depend on numerous factors, including the nature of future expansion and acquisition opportunities and factors beyond our control, including economic conditions, competition, regulatory developments and the availability of capital.

In addition to the capital expenditures above, we took delivery of approximately \$134.4 million and \$168.6 million of Internet infrastructure equipment in March and June 2000, respectively, in association with entering



into agreements with Qwest Communications Corporation (see Note 10 of the Notes to Unaudited Condensed Consolidated Financial Statements). We entered into a lease financing transaction in the 2000 Second Quarter to fund the cost of the \$134.4 million of equipment purchased in March 2000 and in November 2000 we

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entered into a financing transaction to fund the cost of the \$168.6 million of equipment purchased in June 2000.

We believe that our cash and borrowings available under the amended senior secured credit facility will be sufficient to meet our liquidity needs through the completion of our remaining two networks currently planned for completion during 2000, as well as operating losses and capital expenditure requirements for all of our 37 Tier III markets and other existing commitments into the second quarter of 2001. However, our liquidity and financial position will continue to be impacted by our financial performance.

In addition, in the event that our plans change, the assumptions upon which our plans are based prove inaccurate, we expand or accelerate our business plan or we determine to consummate acquisitions, the foregoing sources of funds may prove insufficient and we may be required to seek additional financing sooner than we currently expect. Additional sources of financing may include public or private equity or debt financings, leases and other financing arrangements. We can give no assurance that additional financing will be available to us or, if available, that it can be obtained on a timely basis and on acceptable terms.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates. A substantial portion of our long-term debt bears interest at a fixed rate. However, the fair market value of the fixed rate debt is sensitive to changes in interest rates. We are subject to the risk that market interest rates will decline and the interest expense due under the fixed rate debt will exceed the amounts due based on current market rates. We have entered into two interest rate swap agreements with commercial banks to reduce the impact of changes in interest rates on a portion of our outstanding variable rate debt. The agreements effectively fix the interest rate on \$415.0 million of our outstanding variable rate borrowings under the amended senior secured credit facility due 2007. A \$325 million interest rate swap agreement entered into in April 2000 terminates in April 2004 and a \$90 million interest rate swap agreement entered into in June 2000 terminates in June 2005. For other information regarding the swap agreements, see Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements contained in Item 1.

The following table provides information about our significant financial instruments that are sensitive to changes in interest rates (in millions):

&lt;TABLE&gt;

&lt;CAPTION&gt;

Fair Value on September 30, 2000			Future Pr 2002	
2000	2000	2001	2002	
-----	-----	-----	-----	

<S>	<C>	<C>	<C>	<C>	<C>
Long-Term Debt:					
Fixed Rate:					
Senior Discount Notes, interest payable at 12 1/2%, maturing 2008		\$180.0	\$ -	\$ -	\$ -
Senior Notes, interest payable at 13 1/2%, maturing 2009		243.6	-	-	-
Variable rate:					
Amended Senior Secured Credit Facility, interest variable (11.87% at September 30,2000) (a)		581.3	-	-	.6
Telecom IV Senior Secured Term Loan, interest variable (11.31% at September 30,2000) (a)		34.8	-	-	-
		-----	-----	-----	-----
Interest rate swaps:					
Variable rate for fixed rate		(2.6)	-	-	-
		-----	-----	-----	-----
Total		\$1,037.1	\$ -	\$ -	\$ .6

&lt;/TABLE&gt;

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(a) Interest is based on a variable rate, which at our option, is determined by either a base rate or LIBOR, plus, in each case, a specified margin.

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## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS.

Not Applicable.

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

(a) Applicable.

(b) Not Applicable.

(c) On July 12, 2000, one entity exercised stock options to purchase 7,500 shares of common stock previously granted to that entity under the 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates for aggregate gross proceeds of \$562,500. The sale was made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act, on the basis that the transaction did not involve a public offering. A Stockholder's Agreement executed by the entity contains representations as to its investment intent and imposes substantial restrictions upon transfer of the securities.

On September 8, 2000, the Company granted options to purchase an aggregate of 18,200 shares of common stock to its employees and employees of certain of its affiliates under the 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates. No consideration was received by the Company for the issuance of the options. Options to purchase 6,000 shares are exercisable at an exercise price of \$250 per share and options

to purchase 12,200 shares are exercisable at an exercise price of \$300 per share. The issuance of the options was made in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(2) of that Act, on the basis that the transaction did not involve a public offering.

(d) Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a)(i) Written consents of the holders of the Company's Common Stock, Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock, voting as a single class, dated as of July 5, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(a)(ii) Written consents of the holders of the Company's Series A Cumulative Convertible Preferred Stock, voting as a class, dated as of July 7, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(a)(iii) Written consents of the holders of the Company's Series C Cumulative Convertible Preferred Stock, voting as a class, dated as of July 5, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

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(a)(iv) Written consents of the holders of the Company's Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, dated as of July 5, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(a)(v) Written consents of the holders of the Company's Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, dated as of July 6, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(b) Not Applicable.

(c)(i) By written consent, the holders of the Company's Common Stock, Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock, voting as a single class, approved and adopted amendments to the Company's Amended and Restated Certificate of Incorporation (A) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (B) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation. Out of the 1,152,574.9 shares of Common Stock, Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock issued and outstanding, consents were obtained from the holders of 1,107,372 shares.

(c)(ii) By unanimous written consent, the holders of the Company's Series A Cumulative Convertible Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series A Cumulative Convertible Preferred Stock, par value \$.01 per share, as required by the Certificate of Designations

governing the rights of the holders of the Series A Cumulative Convertible Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation.

(c)(iii) By unanimous written consent, the holders of the Company's Series C Cumulative Convertible Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, par value \$.01 per share, as required by the Certificate of Designations governing the rights of the holders of the Series C Cumulative Convertible Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation.

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(c)(iv) By written consent, the holders of the Company's Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, par value \$.01 per share, as required by the Certificate of Designations governing the rights of the holders of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation. Out of the 69,815.46 shares of Series E Senior Redeemable, Exchangeable, PIK Preferred Stock issued and outstanding, consents were obtained from the holders of 63,980.32 shares.

(c)(v) By unanimous written consent, the holders of the Company's Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, par value \$.01 per share, as required by the

Certificate of Designations governing the rights of the holders of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation.

(d) Not Applicable.

ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS

3.1 Certificate of Amendment of the Amended and Restated Certificate of Incorporation of KMC Telecom Holdings, Inc. dated July 7, 2000 (incorporated herein by reference to Exhibit 3.5 to KMC Telecom Holdings, Inc.'s Registration Statement on Form S-1 filed on September 19, 2000 (hereinafter referred to as the "KMC Holdings' S-1")).

3.2 Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series A Cumulative

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Convertible Preferred Stock, Par Value \$.01 Per Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.10 to KMC Holdings' S-1).

3.3 Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.14 to KMC Holdings' S-1).

3.4 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.20 to KMC Holdings' S-1).

3.5 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.24 to KMC Holdings' S-1).

3.6 Amendment No. 1 to the Amended and Restated By-Laws of KMC Telecom Holdings, Inc., amended as of July 5, 2000 (incorporated herein by reference to Exhibit 3.27 to KMC Holdings' S-1).

27 Financial Data Schedule.

(b) REPORTS ON FORM 8-K

(b)(i) A report on Form 8-K was filed by the Registrant on July 12, 2000 pursuant to Item 5 thereof reporting certain information with respect to the issuance of Series G Convertible Preferred Stock. Such information was disclosed in a Press Release, dated July 12, 2000, filed as an exhibit to such report.

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#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 14, 2000

KMC TELECOM HOLDINGS, INC.  
(Registrant)

By: /S/ WILLIAM F. LENAHA  
-----  
William F. Lenahan  
Chief Executive Officer  
(Principal Executive Officer)

By: /S/ WILLIAM H. STEWART  
-----  
William H. Stewart  
Chief Financial Officer  
(Principal Financial Officer)

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#### EXHIBIT INDEX

NO.	DESCRIPTION
3.1	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of KMC Telecom Holdings, Inc. dated July 7, 2000 (incorporated herein by reference to Exhibit 3.5 to KMC Telecom Holdings, Inc.'s Registration Statement on Form S-1 filed on September 19, 2000 (hereinafter referred to as the "KMC Holdings' S-1")).
3.2	Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series A Cumulative Convertible Preferred Stock, Par Value \$.01 Per

Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.10 to KMC Holdings' S-1).

- 3.3 Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.14 to KMC Holdings' S-1).
- 3.4 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.20 to KMC Holdings' S-1).
- 3.5 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.24 to KMC Holdings' S-1).
- 3.6 Amendment No. 1 to the Amended and Restated By-Laws of KMC Telecom Holdings, Inc., amended as of July 5, 2000 (incorporated herein by reference to Exhibit 3.27 to KMC Holdings' S-1).
- 27 Financial Data Schedule.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET OF KMC TELECOM HOLDINGS, INC. AS OF SEPTEMBER 30, 2000 AND THE RELATED STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.  
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-----END PRIVACY-ENHANCED MESSAGE-----



# **EXHIBIT G**

## **KMC HOLDINGS' GUARANTY**

- **See Attached.**

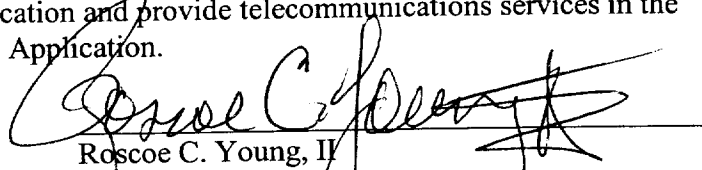
## STATEMENT OF FINANCIAL GUARANTEE

**Roscoe C. Young, II**, Affiant, being duly sworn according to law, deposes and says that:

He is the **President and Chief Operating Officer** of KMC Telecom Holdings, Inc.

That he is authorized to and does make this affidavit for said corporation;

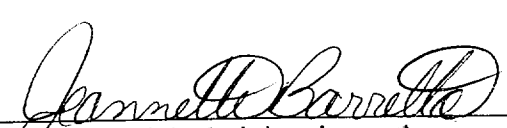
That KMC Telecom Holdings, Inc., guarantees financial support of Applicant KMC Telecom V, Inc., in its endeavor to obtain certification and provide telecommunications services in the State of **Tennessee** as described in this Application.

  
\_\_\_\_\_  
Roscoe C. Young, II  
President & Chief Operating Officer  
KMC Telecom Holdings, Inc.

[Commonwealth/State] of New Jersey :  
: SS.

County of Somerset :

Sworn and subscribed before me this 4th day of December, 2000

  
\_\_\_\_\_  
Signature of official administering oath

My commission expires \_\_\_\_\_  
JEANNETTE BARRETTA  
A Notary Public of New Jersey  
My Commission Expires March 18, 2002

# **EXHIBIT H**

## **UNAUDITED BALANCE SHEET**

- **See Attached.**

**CONFIDENTIAL AND PROPRIETARY. FILED UNDER SEAL.**

# **EXHIBIT I**

## **PROJECTED FINANCIAL STATEMENTS**

- **See Attached.**

**CONFIDENTIAL AND PROPRIETARY. FILED UNDER SEAL.**

## **EXHIBIT J**

### **ESTIMATED COST OF KMC V'S FACILITIES TO BE DEPLOYED IN TENNESSEE**

- **See Attached.**

**CONFIDENTIAL AND PROPRIETARY. FILED UNDER SEAL.**

## **EXHIBIT K**

### **Sample Customer Bill**

- **See Attached.**

**ONE ON ONE TRANSCRIPTION**
**DETAIL LISTING OF CHARGES**
**AMOUNT**

DID Trunk Group  
 DID Trunk Termination  
 Surcharge, E911  
 Surcharge, TRS  
 ClearStar Advantage 1000  
 FCC Access Charge  
**GRAND TOTAL**

ITEM	Local Charges	FROM DATE	TO DATE	QTY.	AMOUNT
850-201-0869	850-201-0770 THRU				
	DID Trunk	3/20/00	4/19/00	6	
	DID Trunk Termination	3/20/00	4/19/00	6	
	E911 Surcharge	3/20/00	4/19/00	1	
	TRS Surcharge	3/20/00	4/19/00	1	
	<b>SUBTOTAL</b>				
8502010870	850-201-0870				
	Clearstar Advantage 1000	3/20/00	4/19/00	1	
	FCC Charge for Network Access	3/20/00	4/19/00	1	
	E911 Surcharge	3/20/00	4/19/00	1	
	TRS Surcharge	3/20/00	4/19/00	1	
	<b>SUBTOTAL</b>				
8502010871	850-201-0871				
	Clearstar Advantage 1000	3/20/00	4/19/00	1	
	FCC Charge for Network Access	3/20/00	4/19/00	1	
	E911 Surcharge	3/20/00	4/19/00	1	
	TRS Surcharge	3/20/00	4/19/00	1	
	<b>SUBTOTAL</b>				
8502010872	850-201-0872				
	Clearstar Advantage 1000	3/20/00	4/19/00	1	
	FCC Charge for Network Access	3/20/00	4/19/00	1	
	E911 Surcharge	3/20/00	4/19/00	1	
	TRS Surcharge	3/20/00	4/19/00	1	
	<b>SUBTOTAL</b>				
8502010873	850-201-0873				
	Clearstar Advantage 1000	3/20/00	4/19/00	1	
	FCC Charge for Network Access	3/20/00	4/19/00	1	
	E911 Surcharge	3/20/00	4/19/00	1	
	TRS Surcharge	3/20/00	4/19/00	1	
	<b>SUBTOTAL</b>				



Creative Solutions with a Hometown Touch

Page OF  
Account Number 0011795  
Calls Thru 3/19/00  
Payment Due 04/14/00

ONE ON ONE TRANSCRIPTION

<u>LINE USAGE SUMMARY</u>	<u>CALLS</u>	<u>MINUTES</u>	<u>AMOUNT</u>
850/201-			
850/201-			
850/201-			
150/201-			
850/201-			
888/893			
888/893-			
*** CUSTOMER TOTAL FOR ONE ON ONE TRANSCRIPTION			

<u>PRODUCT SUMMARY:</u>	<u>AMOUNT</u>	<u>CHARGES/ CREDITS</u>	<u>NET AMOUNT</u>
ClearSaver Toll Free			
ClearSaver Long Distance			
ClearXpress Flat Rate			
ClearSaver LD Canada			
GRAND TOTAL			

TAX DETAIL REPORT

<u>Description of Charge</u>	<u>Amount</u>
FED EXCISE TAX	
ST GROSS RECEIPTS TX	
STATE SALES TAX	
CNTY SALES TAX	
CITY UTIL USERS TAX	
OTHER LOCAL CHARGES	
<u>Tota. Taxes and Surcharges</u>	



# EXHIBIT L

## KMC Telecom V, Inc. Small and Minority-Owned Telecommunications Business Participation Plan for its Tennessee Business Operations

### **Purpose:**

The purpose of the Small and Minority-Owned Telecommunications Business Participation Plan ("Plan") of KMC Telecom V, Inc. ("KMC V" or "Company") is to identify small and minority-owned telecommunications businesses in Tennessee that are qualified to provide goods and services to KMC V, and to promote awareness among these entities of the opportunities to develop business relationships with KMC V in those areas in Tennessee in which KMC V provides telecommunications services.

### **Policy Statement:**

KMC V acknowledges the importance of supporting the participation of small and minority-owned telecommunications businesses in the telecommunications industry in Tennessee and throughout the United States.

It is the policy of KMC V, wherever possible, to provide small and minority-owned telecommunications businesses with an opportunity to compete for contracts and subcontracts to supply goods and services to KMC V in those areas in which KMC V is providing telecommunications services. To this end, KMC V is committed to the identification and selection of qualified small and minority-owned telecommunications businesses that may wish to contract with KMC V for purposes of supplying the Company's Tennessee operations with goods and services relating to the field of telecommunications. It also is the policy of KMC V, where appropriate and feasible, to provide information on programs, if any, to provide technical assistance to small and minority-owned telecommunications businesses whenever and wherever available in Tennessee.

KMC V acknowledges its obligation, under TENN. CODE ANN. § 65-5-212, to contribute its statutory share to the fund established by the Tennessee Department of Economic and Community Development for the purpose of supporting the Small and Minority-Owned Telecommunications Business Assistance Program ("Program") in Tennessee. This Program provides for loan guarantees, technical assistance and services, and consulting and educational services for small and minority-owned telecommunications businesses in Tennessee.

### **Definitions:**

"Act" - Section 16 and 17 of Chapter 408 of the Public Acts of 1995.

*"KMC V"* -- a Delaware corporation headquartered at 1545 Route 206, Suite 300, Bedminster, New Jersey 07921. Phone: (908) 470-2100.

*"Minority-Owned Telecommunications Business"* – As defined in the Act and in TENN. CODE ANN. § 65-5-212, a telecommunications business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and the daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars (\$4,000,000), or as otherwise modified or amended in the future by the legislature for the State of Tennessee.

- a. *"Personally Manages"* in this context shall mean actively involved in the day-to-day management.
- b. *"Controls"* in this context shall mean exercising the power to make policy decisions.
- c. *"Who is impeded from normal entry"* in this context shall individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their qualities as individuals and as provided in the regulation implementing Section B(a) and 7(j) of the Small Business Act, as amended by the Business Opportunity Development Reform Act of 1988, and Business Opportunity Development Reform Act Technical Corrections Act, (15 U.S.C. 67(a) and 636(j)), as amended by Pub. L. 100-656 and Pub. L. 101-37.

*"Small Telecommunications Business"* - A telecommunications company with annual gross receipts of less than four million dollars (\$4,000,000), or as otherwise modified or amended in the future by the legislature for the State of Tennessee.

*"Subcontract"* - Any agreement (other than one involving an employer-employee relationship) entered into by KMC V with a non-affiliated company or individual calling for the direct or indirect purchase of raw materials, components, supplies and services needed to support KMC V's operations.

**IMPLEMENTATION OF PLAN:**

Where appropriate, KMC V will invite bids, issue requests for proposals, or otherwise solicit offers from small and minority-owned telecommunications businesses to furnish specified goods or services to KMC V in furtherance of its Tennessee operations, except in the case of emergencies, or in such cases where KMC V is bound by contract to purchase goods and services from other sources.

#### **ADMINISTRATION OF PLAN:**

In conducting its business affairs in Tennessee, KMC V will appoint one of its employees as the Administrator of the Plan. The Administrator will be responsible for identifying and utilizing available resources for identifying small telecommunications and minority-owned telecommunications businesses interested in and qualified to furnish goods and services to KMC V in Tennessee. The Administrator also will be responsible for cultivating an awareness among such business entities with respect to potential opportunities to develop business relations with KMC V.

As a newly-created company that is yet not operational in any area outside of Florida, KMC V currently does not have in place any specific programs for offering technical assistance to outside sources. However, the Administrator will endeavor to serve as resource for technical assistance to small and minority-owned telecommunications business, and will refer such businesses to sources of information and technical assistance, internal and external, where feasible.

#### **PLAN ADMINISTRATOR:**

The administration of this Plan will be under the direction of (hereinafter called the "Administrator"):

Tricia Breckenridge, Executive Vice President of Business Development  
KMC Telecom V, Inc.  
1755 N. Brown Road  
Lawrenceville, Georgia 30043  
Telephone: (678) 985-7900  
Facsimile: (678) 985-6213

The duties of the Administrator include the following:

1. To develop Company policies and procedures relating to the Plan.
2. To search for and develop opportunities to use qualified small and minority-owned telecommunications businesses to participate in and bid on contracts and subcontracts to supply goods and services to KMC V by utilizing the following resources, where available:
  - a. The United States Department of Commerce, Office of Minority Business Data Center, the Small Business Administration and its Procurement Automated Source System ("PASS") and its Office of Minority Small Business and Capital Ownership Development; the Tennessee Chamber of Commerce; the Tennessee Department of Economic and Community Development; the National Minority Supplier Development Counsel; the

National Association of Women Business Owners; the National Association of Minority Contractors.

- b. Local and national associations, and minority supplier development councils.
  - c. Trade fairs and industry meetings.
  - d. Advertisement in industry and local publications.
  - e. Historically Black Colleges, Universities, and Minority Institutions.
- 3. To establish and maintain an updated Plan and related documentation that are consistent with the current rules, orders and policies of the Tennessee Regulatory Authority regarding small and minority-owned telecommunications businesses, and that are in full compliance with TENN. CODE ANN. § 65-5-212.
  - 4. To prepare and submit such information and documentation as may be required by the Tennessee Regulatory Authority.
  - 5. To cooperate with the Tennessee Regulatory Authority and with other agencies of the State of Tennessee to find and utilize, where possible, the qualified business entities defined herein.
  - 6. To support activities for assisting potential buyers in locating and qualifying the types of business concerns identified herein.
  - 7. To cooperate in any authorized surveys by the Tennessee Regulatory Authority.
  - 8. To provide information and educational activities to KMC V personnel and to train such persons to seek out, encourage, and promote the use of small and minority-owned telecommunications businesses.

**COMPLIANCE REPORTS:**

KMC V will submit such reports as may be required for use in connection with subcontracting plans by the Tennessee Regulatory Authority and/or the State of Tennessee. KMC V will cooperate to the fullest extent possible with all reasonable and appropriate surveys or studies required by the contracting agency for purposes of determining compliance with the State's small and minority-owned telecommunications business participation program. However, KMC V reserves the right to designate any documents, reports, surveys, studies or information submitted for this purpose as "confidential" or "proprietary."

**RECORD MAINTENANCE:**

KMC V will maintain records relating to its Small and Minority-Owned Telecommunications Business Participation Plan for purposes of evidencing the Company's implementation of this policy, for use by KMC V in evaluating the effectiveness and in achieving the goals of its Plan, and for the Company's use in updating the Plan on an annual basis with the Tennessee Regulatory Authority, or as otherwise required.

ADOPTED THIS 12<sup>th</sup> day of December, 2000.

KMC Telecom V, Inc.

By: 

Roscoe C. Young, II, President and Chief Operating Officer

# **EXHIBIT M**

## **Pre-Filed Testimony**

- **SEE ATTACHED.**

**BEFORE THE  
TENNESSEE REGULATORY AUTHORITY**

In the Matter of the Application of )  
 )  
**KMC Telecom V, Inc.** )  
 ) Docket No. \_\_\_\_\_  
for a Certificate of Public Convenience )  
and Necessity as a Competing )  
Telecommunications Service Provider )  
to Provide Competitive Resold and )  
Facilities-Based Local Exchange and )  
Resold Interexchange Telecommunications )  
Services Throughout the State of Tennessee )

---

**PRE-FILED TESTIMONY OF MICHAEL DUKE**

---

I, Michael Duke, do hereby testify as follows in support of the application of KMC Telecom V, Inc. ("KMC V") for a Certificate of Convenience and Necessity as a Competing Telecommunications Services Provider to provide telecommunication services throughout the State of Tennessee.

1 Q: Please state your full name, business address, and position.

2 **A: My name is Michael Duke. I am KMC V's Director of Regulatory Affairs. My**  
3 **business address is KMC Telecom V, Inc. 1755 N. Brown Road, Lawrenceville, Georgia**  
4 **30043.**

5 Q: Please briefly describe your duties.

6 **A: In my capacity as Director of Regulatory Affairs for KMC V, I have overall**  
7 **responsibility for management of KMC's relationships with all legislative and regulatory**  
8 **bodies to insure that KMC is compliant with all rules and regulations and to protect**  
9 **KMC's strategic business interests. I also manage the tariffing of KMC's service offerings.**

10 Q: Please describe your business experience and educational background.

11 **A: Prior to joining KMC, I was with AT&T for 18 years. Over the course of my**  
12 **tenure with AT&T, I had primary responsibility over a variety of telecommunications**

1 assignments and issues, including local service product manager, regulatory affairs, rates  
2 and tariffs and strategic pricing. I have a BA in Political Science with a minor in Public  
3 Administration from the College of New Jersey, formerly known as Trenton State College.  
4 I also have a MA in Political Economy from the University of Texas at Dallas.

5 Q: Are all statements in KMC V's Application true and correct to the best of your  
6 knowledge, information and belief?

7 A: Yes.

8 Q: Please describe the current corporate structure of KMC V.

9 A: KMC V is a wholly owned subsidiary of KMC Telecom Holdings, Inc. The  
10 corporate structure of KMC V is depicted in Exhibit B.

11 Q: Does KMC V possess the requisite managerial, financial, and technical abilities to provide  
12 the services for which it has applied for authority?

13 A: Yes. KMC V possesses the requisite managerial, financial, and technical abilities to  
14 provide the services for which it has applied for authority.

15 Q: Please describe KMC V's financial qualifications.

16 A: KMC V has access to the financing and capital necessary to conduct its  
17 telecommunications operations as specified in its Application. KMC V, through the  
18 strength of its parent corporation, KMC Holdings has access to ample capital to compete  
19 effectively in the market and provide telecommunications services in Tennessee. A  
20 description of KMC Holdings' financial qualifications and a copy of its most recent SEC  
21 Form 10-Q were attached as Exhibit F to KMC V's Application. In addition, KMC V also  
22 attached as Exhibit G to the Application, a Guaranty issued by KMC Holdings  
23 guaranteeing KMC V's financial obligations attendant to its operations as a  
24 telecommunications carrier in Tennessee.

25 Q: Please describe KMC V's managerial and technical qualifications.

26 A: KMC V's technical staff has designed, managed and/or operated advanced  
27 communications facilities throughout the United States. Furthermore, KMC V's  
28 management team includes individuals with substantial experience in successfully  
29 developing, growing and operating telecommunications businesses. The Company's  
30 management team has experience in various segments of the telecommunications industry.  
31 Brief biographies of the management team are appended to KMC V's Application as  
32 Exhibit D.

33 Q: What services will KMC V offer?



1     **A:     KMC V seeks the authority to provide high-speed data transport services to**  
2     **business subscribers to and from all points in the State of Tennessee as a provider of**  
3     **competitive resold and facilities-based local exchange and resold interexchange data**  
4     **services.**

5     **Initially, KMC V intends to deliver port wholesale data services. Over time, KMC V plans**  
6     **to offer other enhanced data services such as ISDN, HDSL, Internet access, Local Area**  
7     **Network-to-Local Area Network interconnect, Wide Area Network services, frame relay**  
8     **and ATM (or asynchronous transfer mode). Port wholesaling gives KMC V the ability to**  
9     **provide data switching to Internet service providers by allowing data calls to be terminated**  
10    **through the port wholesale equipment rather than the switch. This enables the Internet**  
11    **service provider to more cost effectively manage its data requirements while, at the same**  
12    **time, increasing the efficiency and capacity of the KMC V Lucent Technologies Series**  
13    **5ESS(R)-type switch.**

14    **Q:     Will KMC V offer service to all consumers within its service area?**

15    **A:     Yes.**

16    **Q:     Does KMC V plan to offer local exchange telecommunications services in areas served by**  
17    **any incumbent local exchange telephone company with fewer than 100,000 total access lines?**

18    **A:     No.**

19    **Q:     Will the granting of a certificate of convenience and necessity to KMC V serve the public**  
20    **interest?**

21    **A:     Yes. The granting of a certificate of convenience and necessity will serve the public**  
22    **interest because it will increase competition in the market for telecommunications services**  
23    **in the Tennessee, leading to downward pressure on prices and more innovative service**  
24    **offerings. KMC V's proposed service offerings are based on the concept of bringing**  
25    **technologically advanced services to a broader base of Tennessee customers.**

26    **Q:     Does KMC V intend to comply with all TRA rules, statues, and orders pertaining to the**  
27    **provision of telecommunications services in Tennessee, including those for disconnection and**  
28    **reconnection of service?**

29    **A:     Yes. KMC V will comply with all TRA rules, statutes, and orders pertaining to the**  
30    **provision of telecommunications services in Tennessee unless deemed inapplicable or**  
31    **specifically waived.**

32    **Q:     Has any state ever denied KMC V or one of its affiliates authorization to provide**  
33    **intrastate service?**

34    **A:     No.**

1 Q: Has any state ever revoked the certification of KMC V or one of its affiliates?

2 A: No.

3 Q: Has KMC V or one of its affiliates ever been investigated or sanctioned by any regulatory  
4 authority for service or billing irregularities?

5 A: No.

6 Q: Who is knowledgeable about KMC V's operations and will serve as KMC V's regulatory  
7 and customer service contact?

8 A: **John McLaughlin, Director of State Governmental Affairs, will serve as contact. He**  
9 **may be reached at the following address:**

10 **John McLaughlin**  
11 **Director – State Government Affairs**  
12 **KMC TELECOM, INC.**  
13 **1755 N. Brown Road**  
14 **Lawrenceville, Georgia 30043**  
15 **Telephone: (678) 985-7900**  
16 **Facsimile: (678) 985-6213**

17 Q: Please explain in detail KMC V's proposed procedures for responding to  
18 information requests from the TRA and its staff.

19 A: **John McLaughlin, KMC's Director of State Government Affairs, will**  
20 **promptly answer all inquiries from the TRA or its staff. Mr. McLaughlin will contact**  
21 **the appropriate internal KMC department to obtain the requested information and**  
22 **will promptly provide such information tot he requesting party.**

23 Q: Does this conclude your testimony?

24 A: Yes

I swear that the foregoing testimony is true and correct to the best of my knowledge.

Michael Duke

Michael Duke  
Director of Regulatory Affairs  
KMC TELECOM, INC.

Subscribed and sworn to me this <sup>8th</sup> 8 day of December, 2000.

Cynthia L. Philpot  
Notary Public

State of Georgia

County of Gwinnett

My commission expires Notary Public, Gwinnett County, Georgia  
My Commission Expires Jan. 6, 2002

Exhibit M - page 6 of 6 pages

# **EXHIBIT N**

## **Surety Bond**

- **See Attached.**

# TENNESSEE REGULATORY AUTHORITY

## TENNESSEE TELECOMMUNICATIONS SERVICE PROVIDER'S SURETY BOND

Bond # 45009551

WHEREAS, KMC Telecom V. Inc (the "Principal"), has applied to the Tennessee Regulatory Authority for authority to provide telecommunications services in the State of Tennessee; and

WHEREAS, under the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated, as amended, the Principal is required to file this bond in order to obtain such authority and to secure the payment of any monetary sanction imposed in any enforcement proceeding brought under Title 65 of the Tennessee Code Annotated or the Consumer Telemarketing Act of 1990 by or on behalf of the Tennessee Regulatory Authority (the "TRA"); and

WHEREAS, Greenwich Insurance Company (the "Surety"), a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, has agreed to issue this bond in order to permit the Principal to comply with the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated;

NOW THEREFORE, BE IT KNOWN, that we the Principal and the Surety are held and firmly bound to the STATE OF TENNESSEE, in accordance with the provisions of Tennessee Code Annotated, Title 65, Chapter 4, Section 125(j), in the full amount of twenty thousand dollars (\$20,000.00) lawful money of the United States of America to be used for the full and prompt payment of any monetary sanction imposed against the Principal, its representatives, successors or assigns, in any enforcement proceeding brought under Title 65 of Tennessee Code Annotated or the Consumer Telemarketing Act of 1990, by or on behalf of the TRA, for which obligation we bind ourselves, our representatives, successors and assigns, each jointly and severally, firmly and unequivocally by these presents.

This bond shall become effective on the 11th day of December 2000 and shall be continuous; provided, however, that each annual renewal period or portion thereof shall constitute a new bond term. Regardless of the number of years this bond may remain in force, the liability of the Surety shall not be cumulative, and the aggregate liability of the Surety for any and all claims, suits or actions under this bond shall not exceed Twenty Thousand Dollars (\$20,000.00). The Surety may cancel this bond by giving thirty (30) days written notice of such cancellation to the TRA and Principal by certified mail, it being understood that the Surety shall not be relieved of liability that may have accrued under this bond prior to the date of cancellation.

### PRINCIPAL

KMC Telecom V. Inc  
Name of Company authorized by the TRA

1545 Route 206 Bedminster, NJ 07921  
Company ID # as assigned by TRA

### SURETY

Greenwich Insurance Company  
Name of Surety

160 Water St NY, NY 10038  
Address of Surety

SIGNATURE OF PRINCIPAL

Jeannette Barretta  
Name:  
Title: Assistant Secretary

SIGNATURE OF SURETY AGENT

Christine V. McKenna  
Name: Christine V. McKenna  
Title: Attorney-In-Fact

Address of Surety Agent

7 Hanover Square  
New York, NY 10004

THIS BOND IS ISSUED IN ACCORDANCE WITH THE PROVISIONS OF SECTION 125, CHAPTER 4, TITLE 65 OF THE TENNESSEE CODE ANNOTATED AS AMENDED BY CHAPTER NO. 586, 2000 PUBLIC ACTS. SHOULD THERE BE ANY CONFLICT WITH THE TERMS HEREOF AND THE STATUTE OR REGULATIONS PROMULGATED THEREUNDER, THE STATUTE OR REGULATIONS SHALL PREVAIL. (POWER OF ATTORNEY FROM AN APPROVED INSURANCE COMPANY MUST BE ATTACHED)

## ACKNOWLEDGMENT OF PRINCIPAL

STATE OF TENNESSEE

COUNTY OF \_\_\_\_\_

Before me, a Notary Public of the State and County aforesaid, personally appeared \_\_\_\_\_ with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of \_\_\_\_\_, and he acknowledged to me that he executed the same.

WITNESS my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

My Commission Expires:

\_\_\_\_\_, 20\_\_\_\_

\_\_\_\_\_  
Notary Public

## ACKNOWLEDGMENT OF SURETY

STATE OF ~~TENNESSEE~~ New York

COUNTY OF New York

Before me, a Notary Public of the State and County aforesaid, personally appeared Christine V. McKenna with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of \_\_\_\_\_\*, the within named Surety, a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, and that he as such an individual being authorized to do so, executed the foregoing bond, by signing the name of the corporation by himself and as such individual.

WITNESS my hand and seal this 11th day of December, 2000.

My Commission Expires:

9/29/01

\* Greenwich Insurance Company

  
\_\_\_\_\_  
Notary Public

AMY BAXTER  
Notary Public, State of New York  
No. 01BA5065901  
Qualified in Kings County  
Commission Expires Sept. 29, 2001

## APPROVAL AND INDORSEMENT

This is to certify that I have examined the foregoing bond and found the same to be sufficient and in conformity to law, that the sureties on the same are good and worth the penalty thereof, and that the same has been filed with the Tennessee Regulatory Authority, State of Tennessee, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Name:  
Title:

# GREENWICH INSURANCE COMPANY

No. No. G-51-224

## POWER OF ATTORNEY

Know all Men by these Presents: that GREENWICH INSURANCE COMPANY, a California corporation (the "Corporation"), with offices at 70 Seaview Avenue, Stamford, Connecticut, 06902, has made, constituted and appointed, and by these presents, does make, constitute and appoint

**Christine V. McKenna, Elizabeth Marrero, Pamela K. Rife**

**New York**

**New York**

its true and lawful Attorney(s)-in-Fact, at in the State of and each of them to have full power to act without the other or others, to make, execute and deliver on its behalf, as surety or co-surety; bonds and undertakings given for any and all purposes, also to execute and deliver on its behalf as aforesaid renewals, extensions, agreements, waivers, consents or stipulations relating to such bonds or undertakings provided, however, that no single bond or undertaking so made, executed and delivered shall obligate the Corporation for any portion of the penal sum thereof in excess of the sum of

**Five Million**

**5,000,000**

Dollars (\$ )

Such bonds and undertakings for said purposes, when duly executed by said attorney(s)-in-fact, shall be binding upon the Corporation as fully and to the same extent as if signed by the President of the Corporation under its corporate seal attested by its Corporate Secretary.

This appointment is made under and by authority of certain resolutions adopted by the Board of Directors of the Corporation at a meeting duly called and held on the 5th day of April, 2000, a copy of which appears below under the heading entitled "Certificate."

This Power of Attorney is signed and sealed by facsimile under and by authority of the following resolution adopted by the Board of Directors of the Corporation by Unanimous Written Consent on September 18, 1997 and said resolution has not since been revoked, amended or repealed:

RESOLVED, that in granting powers of attorney pursuant to certain resolutions adopted by the Board of Directors of the Corporation at a meeting duly called and held on March 11, 1996, the signature of such directors and officers and the seal of the Corporation may be affixed to any such power of attorney or any certificate relating thereto by facsimile, and any such power of attorney or certificate bearing such facsimile signature or seal shall be valid and binding upon the Corporation in the future with respect to any bond or undertaking to which it is attached.

This Power of Attorney shall expire and all authority hereunder shall terminate without notice at midnight (Standard Time where said attorney(s)-in-fact is authorized to act),

**June 1**

**20**

**6<sup>th</sup>**

**June**

IN WITNESS WHEREOF, the Corporation has caused these presents to be duly signed and its corporate seal to be hereunto affixed and attested this day of 20

(Corporate Seal)

GREENWICH INSURANCE COMPANY

ATTEST

**Suraya K. Kieffer, Assistant Vice President**

By

**Mary A. Roddy, Vice President**

STATE OF CONNECTICUT  
COUNTY OF FAIRFIELD

SS: **Greenwich**

**Mary A. Roddy, Vice President**

On the day of June 20 before me personally came

**Norwalk, CT**

that (s)he is a Vice President of GREENWICH INSURANCE COMPANY,

the corporation described in and which executed the above instrument; that (s)he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that (s)he signed his/her name thereto by like order.

(Notarial Seal)

**Suzanne M. Johnson**

**My Commission Expires 12/31/04**

Notary Public

**Greenwich**

**CERTIFICATE**

STATE OF CONNECTICUT  
COUNTY OF FAIRFIELD

SS:

**Karen M. Manente**

**Assistant Secretary**

of GREENWICH INSURANCE COMPANY,

a California corporation (the "Corporation"), hereby certify:

1. That the original power of attorney of which the foregoing is a copy was duly executed on behalf of the Corporation and has not since been revoked, amended or modified; that the undersigned has compared the foregoing copy thereof with the original power of attorney, and that the same is a true and correct copy of the original power of attorney and of the whole thereof;

2. The following are resolutions which were adopted by the Board of Directors of the Corporation by unanimous written consent on April 5, 2000 and said resolutions have not since been revoked, amended or modified:

"RESOLVED, that each of the individuals named below is authorized to make, execute, seal and deliver for and on behalf of the Corporation any and all bonds, undertakings or obligations in surety or co-surety with others:

**Laura A. Shanahan**

**Sheila M. Kelly**

**Mary A. Roddy**

**Suraya K. Kieffer**

**Lynn M. Petilli**

RESOLVED, FURTHER, that each of the individuals named above is authorized to appoint attorneys-in-fact for the purpose of making, executing, sealing and delivering bonds, undertakings or obligations in surety or co-surety for and on behalf of the Corporation.

3. The undersigned further certifies that the above resolutions are true and correct copies of the resolutions as so recorded and of the whole thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal this 11<sup>th</sup> day of December 2000

(Corporate Seal)

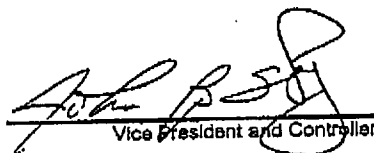
**Karen M. Manente**

**GREENWICH INSURANCE COMPANY**  
**STATUTORY STATEMENT OF ADMITTED ASSETS,**  
**LIABILITIES, CAPITAL AND SURPLUS**  
December 31, 1999

<b>Assets:</b>		<b>Liabilities:</b>	
Investments		Loss and loss adjustment expenses	\$64,916,567
Bonds	\$26,183,875	Reinsurance payable on paid loss and loss adjustment expenses	1,756,990
Short-term Investments	200,000	Unearned premiums	5,024,081
		Funds held under reinsurance treaties	586,975
		Other liabilities	9,393,700
<b>Total Invested Assets</b>	<u><b>26,387,875</b></u>	<b>Total Liabilities</b>	<u><b>81,678,313</b></u>
Cash	25,584,304	<b>Capital and Surplus:</b>	
Agents balances or		Capital stock	3,558,100
Funds held by or deposited		Paid-in surplus	21,915,853
Reinsurance recoverable on loss and loss adj. expense payments	2,747,833	Unassigned surplus	-1,184,582
Accrued interest and dividends	512,854	<b>Total Capital and Surplus</b>	<u><b>24,289,371</b></u>
Other admitted assets	<u>47,234,024</u>		
<b>Total Admitted Assets</b>	<u><b>\$105,967,684</b></u>	<b>Total Liabilities, Capital and Surplus</b>	<u><b>\$105,967,684</b></u>

I, John B. Wong, Vice President and Controller of Greenwich Insurance Company, (the "Corporation") do hereby certify that to the best of my knowledge and belief, the foregoing is a full and true Statutory Statement of Admitted Assets, Liabilities, Capital and Surplus of the Corporation, as of December 31, 1999, prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of California. The foregoing statement should not be taken as a complete statement of financial condition of the Corporation. Such a statement is available upon written request at the Corporation's principal office located at One Greenwich Plaza, Greenwich, Connecticut 06836.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation at Greenwich, Connecticut.

  
Vice President and Controller